

Kudrin Defiantly Declares He's Ready to Quit

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Vladimir Putin's carefully orchestrated plans to return to the Kremlin have hit a roadblock with Finance Minister Alexei Kudrin's refusal to work in a Cabinet led by Dmitry Medvedev, possibly leaving him with the dilemma of choosing between the two men for prime minister.

Putin will likely need Kudrin's fiscal wizardry to fulfill weekend promises to increase Russia's annual economic growth to 7 percent by taxing the rich and the oil industry, even while hiking state salaries and pushing ahead with multibillion-dollar upgrades of the military.

Putin, who announced his presidency bid at a United Russia pre-election convention, indicated that Medvedev would succeed him as prime minister to supervise post-election modernization reforms.

But Kudrin threatened to resign after the presidential election in March.

"I will definitely refuse," Kudrin, 50, said when asked whether he would join Medvedev's government. He spoke in Washington at a World Bank meeting.

"I have many disagreements with Medvedev on economic policy, first of all concerning the significant military spending," said Kudrin, who is widely seen as the architect of Russia's economic stability in the 2000s.

Spending on national defense will grow by 2.1 trillion rubles (\$65 billion), or 3 percent of gross domestic product, from 2012 to 2014, Kudrin said, adding that this is how much the state is spending on education this year.

He did not comment on a declaration by Putin on Saturday that he would also push ahead with the army's modernization.

Kudrin has been shortlisted as a possible candidate for the prime minister's post after the March presidential election. Analysts said his resignation threat might be prompted by resentment over not getting the post.

But Kudrin may yet receive the job because he is more qualified for it than Medvedev, a lawyer with limited expertise on economic issues, former Deputy Economic Minister Ivan Starikov told The Moscow Times on Sunday.

"Kudrin, not Medvedev, is the No. 1 candidate for the prime minister's post," Starikov said by telephone. "In times of harsh economic problems, Putin needs a strong head of the Cabinet with an austere reputation."

Kudrin, an economic liberal and fiscal conservative who has served as finance minister since 2000, set aside and safeguarded the government's oil windfall in a stabilization fund that helped bail out the recession-hit economy in 2008 and 2009.

Putin would be hard pressed to replace Kudrin, said Ronald Nash, chief strategist at Verno Capital.

"Kudrin personifies Russia's macro- and fiscal stability. His departure would be a major blow to the Russian investment case," Nash told Reuters. But he also said Kudrin might give Medvedev a run for his money for the prime minister's seat.

Putin's spokesman Dmitry Peskov said Sunday that Kudrin exercised his right to free speech in voicing his position on a Medvedev government, Interfax reported.

But "there's no doubt that Alexei Kudrin will stay on Putin's team," Peskov said. He called Kudrin "an economist with a capital 'E'" and "a man respected by all."

This is not the first time that Kudrin, who is also a deputy prime minister, has spoken independently on sensitive matters. In February, he said at a forum in Krasnoyarsk that for stable growth, the country needs free and fair elections — a reality that Russia is widely seen as lacking.

Putin will need a capable fiscal manager to implement his sweeping plans, which include making Russia one of the world's top five economies by 2016.

This goal would require speeding up economic growth from the current 4 percent to some 6 to 7 percent a year, he told United Russia delegates on Saturday. "If we go at the current speed, we will not be able to strengthen our position and ensure high-quality living standards for our citizens," he said.

Despite economic stability, money is fleeing Russia, prompted by rampant corruption, police abuse and a weak judiciary. The Central Bank said in June that capital outflows in 2011 may reach \$35 billion.

Putin pledged to improve the investment climate and fight red tape by "consulting the entrepreneur community" on economic legislation.

In recent years, the government has begun to hold public discussion on key bills, most notably, the 2010 legislation on police reform. But many public proposals were ignored in the final version of the police bill.

Putin also said salaries for state employees would be boosted by 6.5 percent next month — two months before the Duma elections, which his United Russia party hopes to win by a landslide.

A key part of his economic program will be to increase taxes on the richest, but through property and real estate taxation, not income tax, which will remain flat at 13 percent, Putin said.

He gave no definition for who qualified as the richest Russians, but he also promised to create a more "fair" taxation system, favoring cutting-edge businesses that help advance modernization.

"There should be one taxation system for those who live on natural resources and another system with lower taxes for those who open up new companies and businesses," Putin said.

His own policies have not lived up to this pledge. It was Putin's government that increased the company payroll tax from 26 percent, or 14 percent for small businesses, to 34 percent this year, prompting an outcry and even street protests last spring.

In June, Medvedev ordered the tax slashed to 20 percent for small businesses and 30 percent for the others starting January. But Kommersant reported earlier this month, citing data by the Health and Social Development Ministry, that the rollback to 34 percent is scheduled by 2014.

Yana Yakovleva, president of Business Solidarity, a lobby group for small businesses, said she did not expect life for small and mid-sized business to get easier under a Putin presidency.

"If there will be a liberalization, it will concern [Putin's] inner circle of businesspeople," she said by telephone Sunday. "I've got a feeling that small business owners live only to support midlevel bureaucrats, and it's only the kickback requests that are getting more innovative."

She said things have gotten better for small businesses during Medvedev's presidency. "Before, the topic did not even exist" on the government agenda, Yakovleva said.

As for the planned policies, they have a slim chance of materializing, and the real economic situation will depend on the price of oil, said Starikov, who worked as deputy economic minister in the early 2000s under former Prime Minister Mikhail Kasyanov.

"Everything will hinge on energy prices," he said. "If they remain high, there will be no reforms. If prices go down to \$80 per barrel, the country might see an economic collapse."

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