

# Monotowns, Economic Crisis, and the Politics of Industrial Restructuring in Russia

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## Abstract

During the 2008-09 economic crisis, Russia's monotowns -- one-industry towns left from the Soviet era -- gained widespread attention as potential sources of social protest and unrest. Will such worries resurface under current economic conditions? While fears about monotowns were exaggerated during the last economic crisis, Russia's leadership has reason to remain concerned. Despite the dramatic transformations of the last two decades, Russia's post-Soviet industrial landscape has largely survived intact, leaving a significant number of monotowns with unprofitable enterprises in a precarious position. Yet given its emphasis on social stability, we can expect the government to continue subsidies, both explicit and hidden, that seek to maintain employment and avoid social conflict, but that preserve the country's inefficient industrial geography.

During Russia's economic crisis of 2008-09, monotowns -- one-industry towns left from the Soviet era -- suddenly became a topic of concern. Given Russia's current economic challenges, will the monotowns again become a source of worry, and perhaps social unrest, or have such concerns been exaggerated? How widespread are Russia's monotowns, and how serious are the economic challenges that they face? Why has the Russian government persisted in subsidizing and keeping open unprofitable enterprises in monotowns, rather than closing those most inefficient, and relocating affected populations to regions with more productive uses for their labor? Much about Russia's monotowns remains murky, but the discussion that follows will try to illuminate what is known.

## Defining the Problem

A significant number of Russian towns and cities are dependent on a single industry and hence "monotowns" (*monoprofil'nye goroda* or simply *monogoroda*). These cities -- built around industrial enterprises (sometimes called *gradoobrazuyushchie predpriyatiya* or "city-forming enterprises") -- were created to meet the needs of a planned economy rather than a competitive market. A number of these towns are thought to be particularly vulnerable, not only because the dominant enterprise is unprofitable, but because its closure would threaten the entire town's social and physical infrastructure.

Monotowns grabbed the widespread attention of Russian society during the 2008-09 crisis, which led to fears of substantial unemployment and the specter of social unrest. In 2008, the Institute of Regional Policy, a Russian think tank, released a study commissioned by the Ministry of Regional Development, titled "The Monotowns of Russia: How to Survive the Crisis?"<sup>1</sup> The study -- widely cited in the media and

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<sup>1</sup> *Monogoroda Rosii: Kak Perezhit' Krizis?* (Moscow: Institut regional'noi politiki, 2008). In what follows we will use the terms "monotown" and the Russian "monogoroda" interchangeably to avoid repetition.

elsewhere -- claimed that Russia had 460 monotowns, representing 40 percent of all cities, with 25 percent of Russia's population, and producing 40 percent of Russia's GDP.

Soon thereafter, the economist (and former head of Russia's Department of Social Development) Evgenii Gontmakher caused a sensation when he published an article provocatively titled "Novocherkassk, 2009!" that sketched out a hypothetical scenario whereby a labor protest in a single *monogorod* quickly spread, leading to unrest and violence all the way to Moscow.<sup>2</sup> Gontmakher (and the newspaper *Vedomosti* that published the article) were criticized by the government for "inciting extremism".<sup>3</sup>

Just six months later, protests erupted in the monotown Pikalyovo, an event that was widely discussed in the Russian media.<sup>4</sup> In the wake of Pikalyovo, there was renewed talk of the potential for "social explosion" in Russia, centered in the *monogorods*, with western analysts also speaking of the one company towns as a potential "time bomb."<sup>5</sup> That same year, the Russian government established a commission, still in operation, to monitor the economic and social conditions of the country's *monogorods*.

Yet at the height of the crisis, the threat posed by the monotowns was almost certainly overstated, largely due to a lack of clarity. First, the Institute of Regional Policy study was flawed, being based on a study completed almost a decade earlier, with little to no updating or verification. Second, the exact definition of the term *monogorod* is imprecise; for instance, a number of lists have included centers of oil and gas extraction.<sup>6</sup> Third, *monogorods* vary greatly in size. The largest *monogorod* is Tol'iatti, where until recently one out of every seven residents, in a city of 700,000, was directly employed at the car factory Avto-VAZ. Yet by one count, 48 out of a total of 335 monotowns were under 5,000 in population. Most range anywhere from 300,000 to over 5,000 in size.<sup>7</sup>

For all these reasons, the exact number of monotowns and their scope remains unclear.<sup>8</sup> The official government list published in July 2014 by the Ministry of Economic Development includes 313 municipalities, of which 229 are larger than "settlements."<sup>9</sup> The government's list also divides the monotowns into three categories, according to their "risk of worsening social-economic conditions," as determined by such factors as the amount of actual or planned layoffs, the level of registered unemployment, and whether the local population judges the social-economic situation to be unfavorable

<sup>2</sup> Evgenii' Gontmakher, "Stenarii': Novocherkassk-2009," *Vedomosti*, November 6, 2008, no. 210 edition.

<sup>3</sup> Nikolaus von Twickel, "Signs of a Kremlin Fearful of Unrest," *Moscow Times*, December 12, 2008, no. 4051 edition.

<sup>4</sup> Labor protests were also taking place in other monotowns. See Stephen Crowley, "Russia's Labor Legacy: Making Use of the Past," in *Working through the Past: Labor and Authoritarian Legacies in Comparative Perspective*, ed. Teri L. Caraway, Maria Lorena Cook, and Stephen Crowley (Ithaca, N.Y.: Cornell University Press, 2015).

<sup>5</sup> Leon Aron, "Russia's 'Monotowns' Time Bomb," *Russian Outlook*, Fall 2009; Leon Aron, "Darkness on the Edge of Monotown," *The New York Times*, October 17, 2009, sec. Opinion, <http://www.nytimes.com/2009/10/17/opinion/17aron.html>.

<sup>6</sup> Natalia Zubarevich, *Regiony Rossii: Neravenstvo, Krizis, Modernizatsiya* (Moscow: Nezavisimyi institut sotsial'noi politiki, 2010), 83, 87.

<sup>7</sup> I. I. Il'ina, "Strategiya Modernizatsii Monogorodov Rossii," in *Razvitie Monoprofil'nykh Naseleennykh Puntov v Rossiyskoy Federatsii*, ed. A. V. Turkov (Moscow: Finansovyy universitet, 2012).

<sup>8</sup> Zubarevich, *Regiony Rossii: Neravenstvo, Krizis, Modernizatsiya*, 86.

<sup>9</sup> Pravitel'stvo Rossii, "Ob Utverzhdenii Perechnya Monogorodov," accessed September 4, 2014, <http://m.government.ru/docs/14051>.

(*neblagopoluchnaya*) “according to sociological surveys conducted by the Federal Protective Service” (FSO).<sup>10</sup> Fifty-four municipalities (not including settlements) are included in “category 1” as having the “most complex (*slozhnyy*) social-economic conditions,” with another 104 included in category 2 as being at risk of worsening social-economic conditions.<sup>11</sup>

### **Economic challenges**

Despite the inflated estimates and overdrawn fears of social unrest, Zubarevich argues that “sooner or later the majority of [monotowns] will become problematic.”<sup>12</sup> Likewise the World Bank has concluded that it “is likely that only a few of the enterprises can compete in international markets,” since their “underlying problems are market unfriendly locations for enterprises which produce uncompetitive products.”<sup>13</sup>

Yet virtually none of these Soviet-era workplaces have been closed. Instead of mass layoffs and plant closures, Russia’s enterprises have adjusted to economic conditions by letting wage levels fall and rise dramatically, as well as by letting new hires lag behind the number of nominally voluntary separations.<sup>14</sup> Indeed, a substantial number of workers that have exited from industrial production to the service or informal sectors: even without mass layoffs, from 1990 to 2009 the percentage of Russians employed in industry has dropped from 41% to 27%.<sup>15</sup> Nevertheless, large numbers of Russian industrial firms remain unprofitable. While data on the profitability of monotown enterprises is not available, Gimpelson and Kapeliushnikov note that, “even in the very successful year of 2007, after 9 years of buoyant growth, every fourth Russian enterprise reported zero or negative profits. In crisis ridden 2009 this proportion increased to one third.”<sup>16</sup> Moreover, such a passive approach to restructuring has left Russia’s post-Soviet industrial geography largely intact. In Gaddy and Ickes evocative phrase, this has been a strategy of “keeping the lights on,” preserving inefficient workplaces relying on obsolete technology in non-competitive locations.<sup>17</sup> One empirical study of Russia’s monotowns enterprises finds their output to be 70% lower than that of their peers. This lower level of labor productivity – a gap which has widened over time according to panel data – suggests significant labor hoarding.<sup>18</sup>

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<sup>10</sup> Pravitel’stvo Rossii, “O Kriteriyakh Otneseniya Munitsipal’nykh Obrazovaniy K Monogorodam I O Kategoriyakh Monogorodov v Zavisimosti Ot Riskov Ukhudsheniya Ikh Sotsial’noekonomicheskogo Polozheniya,” July 31, 2014, <http://m.government.ru/docs/14049>.

<sup>11</sup> *Ibid.*

<sup>12</sup> Zubarevich, *Regiony Rossii: Neravenstvo, Krizis, Modernizatsiya*, 86.

<sup>13</sup> World Bank, “The Challenge of Russia’s Montowns,” *Russian Economic Report*, no. 22 (June 2010): 24.

<sup>14</sup> Vladimir Gimpelson and Rostislav Kapeliushnikov, “Anticipation and Management of Restructuring in the Russia” (European Commission: DG Employment, Social Affairs and Inclusion, October 2011).

<sup>15</sup> *Ibid.*, 10.

<sup>16</sup> *Ibid.*, 12.

<sup>17</sup> Clifford G. Gaddy and Barry William Ickes, *Bear Traps on Russia’s Road to Modernization* (Milton Park, Abingdon, Oxon: Routledge, 2013).

<sup>18</sup> Simon Commander, Zlatko Nikoloski, and Alexander Plekhanov, “Employment Concentration and Resource Allocation: One-Company Towns in Russia,” *IZA Discussion Paper*, no. No. 6034 (October 2011).

Even during the 2008-09 economic crisis, the feared mass dismissals did not take place: in fact, they were as low in 2009 as in 2007.<sup>19</sup> The concern that mass unemployment would sharply increase social tensions in the most worrisome monotowns led “Russian authorities to use all possible means to prevent this outcome, including regulating the price of raw materials (as in Pikaloyovo), the transfer of enterprises to state control (as in the Baikalsk pulp and paper mill), strict prohibitions on layoffs including sanctions by prosecutors, etc.”<sup>20</sup> Enterprises responded in the usual way, by turning to part-time work, forced leaves and delaying new hires. The federal government stepped in with additional employment support in the form of “public and temporary work.” This support reached 115,000 enterprises in 2009, with 1.5 million workers receiving support that year.

The exact cost of supporting Russia’s monotowns is difficult to determine. In 2010 the government allocated 25 billion Rubles (\$846 million) directly to 27 monogorods. According to the World Bank, applying the same amount to all monotowns would cost about 460 billion rubles, or 7 percent of Russia’s federal revenue in 2010.<sup>21</sup> Not surprisingly, the goal of creating 200,000 new jobs in the monogorods by 2015, set by then Prime Minister Putin in 2011, shows little sign of being realized.<sup>22</sup>

### Why “lights on”?

Yet the challenge is not limited to explicit government subsidies. Gaddy and Ickes have used the term “rent addiction” to characterize how rents from the oil and gas sector are transferred -- in implicit and hidden fashion -- to subsidize loss-making industries in monotowns and elsewhere.<sup>23</sup> These implicit subsidies move through a “rent distribution chain”, whereby the oil and gas industry provides cheap inputs for industrial production, and pays for orders from inefficient domestic producers. By their nature, such hidden subsidies are very difficult to measure, yet Gaddy and Ickes make a persuasive case that maintaining industrial production and employment in the inhospitable climates of Siberia, or in enterprises separated from markets by sheer distance, including many monotowns, requires substantial hidden costs that act as a considerable brake on Russia’s economic growth.<sup>24</sup>

Why maintain such subsidies rather than provide incentives for people to relocate? Why not, in Zubarevich’s words, subsidize “people, not regions”?<sup>25</sup> Poland and Hungary, for example, used substantial government funds to cushion postcommunist unemployment, but rather than subsidize losing enterprises they essentially paid large

<sup>19</sup> Vladimir Gimpelson and Kapeliushnikov, “Anticipation and Management of Restructuring in the Russia,” 18–19.

<sup>20</sup> Zubarevich, *Regiony Rossii: Neravenstvo, Krizis, Modernizatsiya*, 92.

<sup>21</sup> World Bank, “The Challenge of Russia’s Montowns”; “\$33.8 Billion Required to Save Monotowns,” *The Other Russia*, March 10, 2010, <http://www.theotherussia.org/2010/03/10/33-8-billion-needed-to-save-monotowns/>.

<sup>22</sup> “Putin Ozhidaet Znachitel’nogo Snizheniya Urovnya Bezrabotitsy K Godu 2015,” *Izvestiya*, January 12, 2011, <http://izvestia.ru/news/483926>.

<sup>23</sup> See also Commander, Nikoloski, and Plekhanov, “Employment Concentration and Resource Allocation: One-Company Towns in Russia,” 3.

<sup>24</sup> Gaddy and Ickes, *Bear Traps on Russia’s Road to Modernization*.

<sup>25</sup> Natalia Zubarevich, “Russia’s Regions and Cities: Scenarios for 2020,” in *Russia in 2020: Scenarios for the Future*, ed. Maria Lipman and Nikolay Petrov (Washington, D.C.: Carnegie Endowment for International Peace, 2011), 410.

numbers of workers to leave the labor force, by steering them onto disability and pension rolls.<sup>26</sup> There are a number of overlapping reasons why Russia has not taken similar steps. There is a lack of jobs and housing in other regions that might encourage outmigration. Russia's federal system might play a role, as regional leaders seek to keep labor in place in order to maintain that the "fictitious capital" of loss-making enterprises on their territories still have value.<sup>27</sup> Subsidies can also be exchanged for votes for United Russia. In a study of workplace campaigning around the 2011 parliamentary elections, surveys revealed that employees were more likely to be subjected to political campaigning if they worked in large firms, in firms dependent on state support, those in heavy industry and mining, and especially those "living in a monogorod [who were] twice as likely to have been mobilized than those living in other types of cities -- (41.3 percent versus 20.2 percent)."<sup>28</sup>

Yet there is little question that the concern with "social stability" remains a paramount reason for maintaining subsidies in Russia's monotowns. Putin has explicitly evoked his alleged backing from workers in Russia's industrial heartland – witness his support for factory foreman Igor Kholmanskikh, who, having denounced the anti-Putin protesters in Moscow and St. Petersburg, was elevated to the post of Presidential Representative for the Urals Federal Region. On the other hand, while official strike statistics in Russia are almost absurdly low, this is due to severe restrictions on legal strikes, and unofficial databases of worker protest show the numbers to be considerably higher.<sup>29</sup> While talk of Russia's monotowns as a potential "time bomb" leading to a new Novocheerkassk are almost certainly overstated, workers lack institutional channels to express their grievances effectively and this creates the potential that localized economic protests could become radicalized.<sup>30</sup> Little wonder then that the FSO is monitoring the social situation in Russia's monotowns.

For evidence of how worker protest might be impacted by mass layoffs and plant closures, Russia need only to look to China. In Ching Kwan Lee's study, the "rustbelt" province of Liaoning in China's northeast, which was "once the heartland of the socialist planned economy and home to some of China's most prominent state-owned industrial enterprises," has since "decayed into a wasteland of bankruptcy" and a "hotbed of working-class protest by its many unemployed workers and pensioners."<sup>31</sup> Nationwide, thousands of worker protests have taken place in China each year since the 1990's, with workers often blocking street traffic, lying across railroads, or sitting-in in front of government buildings. Nationwide, government statistics recorded 87,000 cases of "riots and demonstrations" in 2004 alone.<sup>32</sup> Needless to say, this industrial decay and worker

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<sup>26</sup> Pieter Vanhuysse, *Divide and Pacify: Strategic Social Policies and Political Protests in Post-Communist Democracies* (Budapest: Central European University Press, 2006).

<sup>27</sup> Gaddy and Ickes, *Bear Traps on Russia's Road to Modernization*, 85.

<sup>28</sup> Timothy Frye, Ora John Reuter, and David Szakonyi, "Political Machines at Work Voter Mobilization and Electoral Subversion in the Workplace," *World Politics* 66, no. 02 (2014): 217.

<sup>29</sup> Petr Bizyukov, "Labor Protests in Russia, 2008–2011," *Russian Analytical Digest*, no. No. 104 (October 27, 2011): 6–10.

<sup>30</sup> Crowley, "Russia's Labor Legacy: Making Use of the Past."

<sup>31</sup> Ching Kwan Lee, *Against the Law: Labor Protests in China's Rustbelt and Sunbelt* (Berkeley: University of California Press, 2007), x.

<sup>32</sup> *Ibid.*, 5.

protest has taken place alongside almost unprecedented levels of overall economic growth.

Moreover, while worker protests have “presented a palpable threat to social stability,” they have largely remained “cellular” in the sense that they are typically aimed at the local level, because, Kwan Lee argues, the Chinese leadership has successfully created a “decentralized legal authoritarianism”, where local rather than national leaders are perceived as responsible for economic conditions in their regions.<sup>33</sup> Whether Putin has created the appearance of being “hands off” regarding the economy is certainly debatable.

In short, while the number and scope of Russia’s monotowns, as well as their likelihood of erupting in large-scale social unrest, was exaggerated during the last economic crisis, they are likely to remain a significant concern for Russia’s leadership. That concern will almost surely lead to continued subsidies, both in the form of “anti-crisis” and other government expenditures, and hidden subsidies in the form of transfers from other industries. Both could contribute to economic stagnation, which in turn could raise fears of social unrest.

### **About the Author**

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<sup>33</sup> Lee, *Against the Law*.