



ECONOMIC CHALLENGES: WEAK RUBLE, UNSTRUCTURED MONOTOWNS

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ANALYSIS

What is Happening to the Ruble?

By Philip Hanson, London

Abstract

The ruble has fallen dramatically against other currencies. The reasons for this drop and the major consequences are assessed. Near-term prospects are briefly considered. There are multiple causes and multiple consequences of the ruble's depreciation but the causal chain *oil price—exchange rate—inflation* stands out. The ruble will stabilise.

On 18 February, 2015, the business newspaper *Vedomosti* gave the following current quotations for the ruble: 62.40 rubles to the US dollar and 71.08 rubles to the euro. The average rates in February 2014 were 35.22 and 48.06, respectively.¹ The Russian currency, in other words, had almost halved in value against the world's leading reserve currency, the US dollar, and fallen by almost as much against the euro, in the course of a year.

Why? What are the consequences? What are the prospects for the near term? Those are the questions that I shall try to shed some light on in this article.

The Oil Price and the Ruble

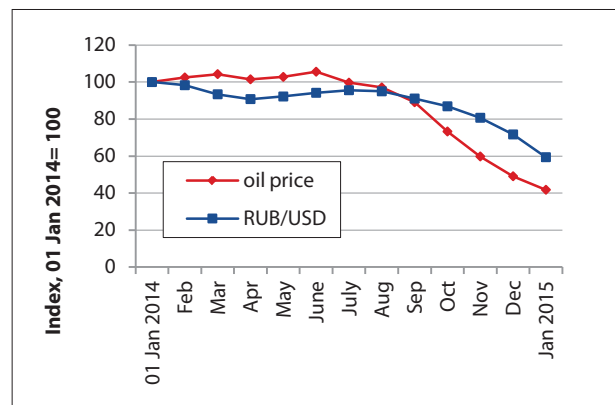
One simple explanation that is commonly offered is that the oil price drives the Russian ruble. This is indeed an important part of the story. But the total supply and demand for rubles depend on a range of factors. In 2014 the most important have been the following:

- The oil price
- Western sanctions, blocking Russian banks' and companies' access to external credit and forcing them to purchase more euros and dollars to redeem existing debt
- The greater-than-usual net outflow of capital, over and above debt redemption, reflecting heightened perceptions of both economic and political risk in Russia
- The policies of the Central Bank of Russia (CBR), both in providing ruble liquidity and (until the introduction of a nearly-free currency float on November 10, 2014) predictably selling foreign currency from the reserves to prop up the ruble.²

The link with the oil price has been strong. The fact that there has been such a strong relationship, especially since summer 2014, however, raises further questions. Figure 1 shows monthly data for the Brent oil price (to which

the Urals oil price is closely linked) and the ruble/dollar rate during 2014.

Figure 1: Brent Oil Price in Dollars Per Barrel and the Ruble/Dollar Exchange Rate During 2014 (Indices, 1 January 2014 = 100)



Sources: Derived from Central Bank of Russia (exchange rate) and <www.investing.com> (oil price).

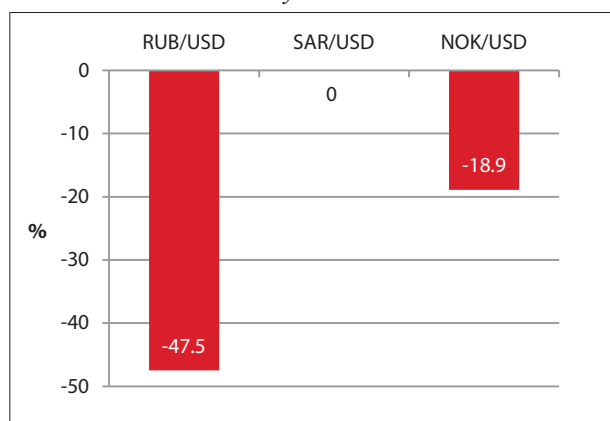
In the course of last year, evidently, the ruble/dollar rate, looked at on a monthly basis, has not been tightly tied to the oil price. A plausible conjecture about the first half of the year is that, initially, heightened perceptions of economic risk, and then of political risk arising from Russia's Ukraine adventure and the West's response, somewhat depressed the ruble, but when the oil price began to fall in the summer, so did the currency, and much faster than before. A sharply falling oil price has certainly meant, in recent years, a sharply falling ruble, and so it has proved in 2014 and into 2015.

It does not follow, however, that Russia's being a major oil exporter accounts for the ruble's volatility, let alone for the country's current economic weakness in general. This explanation did not stand up in the 2008–09 crisis and it does not stand up now. In 2008–09 oil prices fell dramatically, and so did Russian GDP: by 7.8%; but other major oil exporters suffered either a much smaller decline in GDP or none at all. The effect on the ruble this time seems again to be unusually large. Figure 2 illustrates.

1 <http://www.cbr.ru/statistics/print.aspx?file=credit_statistics/ex_rate_ind_14.htm&pid=svs&sid=analit>

2 See <http://echo.msk.ru/blog/nikolaev_i/1435010-echo/> where Igor Nikolaev offers a fairly similar list (posted November 11, 2014).

Figure 2: Russia, Norway and Saudi Arabia: % Change in Exchange Rates Against the US Dollar, Year to 11 February, 2015.



Source: *The Economist*, 14 February 2015, p. 88.

The fall in the Norwegian krone is substantial, but still of a smaller order of magnitude than that of the ruble, while the Saudi riyal simply held its peg to the dollar (at 3.75 Saudi riyals = 1 US dollar).

The reasons for this apparently exaggerated Russian sensitivity to the oil price are not properly understood. Yes, oil and gas have been making up about two-thirds of Russian merchandise exports, and revenues from them have been accounting for about a half of federal (not total) budget revenue. But similar figures apply to other major oil-and-gas exporting nations. The reasons must lie elsewhere.

Causes

One account that may provide a clue is that of Gaddy and Ickes: of an economic system in which the authorities are 'addicted' to a wasteful use of hydrocarbon rents, including the channelling of funds to prop up inefficient, Soviet-legacy enterprises.³ The implication of this account would be that a great deal of Russian economic activity, beyond the oil and gas industries and those firms supplying goods and services to them, is vulnerable to a fall in hydrocarbon revenues. In other words, the economy is in part a house of cards, rather insecurely stuck together with oil, and the edifice tumbles when the oil price falls.

The ruble's fall has been one aspect of the general weakening of the Russian economy. That weakening has occurred in the face of what is now routinely but accurately described as a perfect storm. Long-term structural features of the Russian economy like the declining workforce and the growth-constraining character of the Putinist social order (weak rule of law, weak compe-

tion) have combined with conjunctural factors, such as the slowdown in global growth, the rise in global oil supply and the approaching end of quantitative easing in the US, plus the steep rise in political risk associated with the war in Ukraine, to push Russia into recession.

These influences interact in ways that make things worse. In the second half of 2014 there was a net decline in numbers of immigrants if Ukrainian asylum seekers are excluded.⁴ This has been provoked in part by the decline in the dollar value of earnings. Net immigration, mostly from Central Asia, had been partially offsetting the demographic decline in the working-age population. That offsetting influence is now failing.

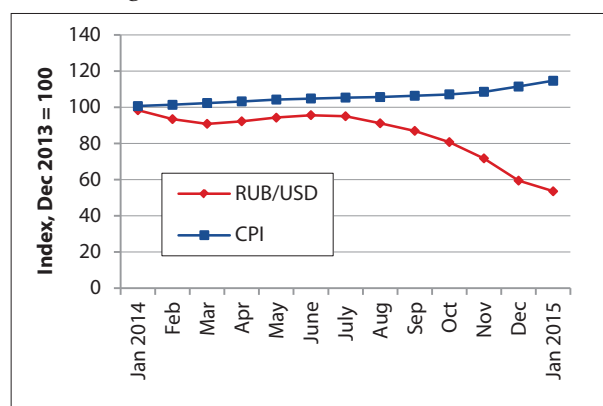
Consequences

The most conspicuous effect of the ruble's depreciation has been its impact on inflation and therefore on the real incomes of the population. I will leave aside in this section the implications for imports and exports, and pick it up in the final section. Less obviously, but still significantly, ruble depreciation has affected federal-budget revenues, the banks' capital adequacy, net migration flows and the well-being of the super-rich.

Alfa-Bank analysts have estimated that in 2014 a 10% fall in the ruble exchange rate (say, from 60 rubles = 1 US dollar to 66 rubles = 1 US dollar) would raise the consumer price index (CPI) by 1.0 to 1.5% (at an annual rate).⁵ The effect is lagged, but the lag may be of the order of only a month.

Figure 3 illustrates the recent relationship between the CPI and the ruble.

Figure 3: Russia: the Ruble–Dollar Exchange Rate and the Consumer Price Index, 2014–2015 (Month-End Figures, December 2013 = 100)



Source: CBR.

3 Clifford G. Gaddy and Barry W. Ickes, 'Russia after the Global Financial Crisis,' *Eurasian Geography and Economics*, 51 (2010), no. 3, pp. 281–311, and *Bear Traps on Russia's Road to Modernization*, London: Routledge, 2013.

4 Mikko Hietikko, 'Q414: Slowdown continuing—banking sector under pressure,' East Office of Finnish Industry, *Quarterly Review of the Russian Economy*, February 12, 2015, at p. 8.

5 AlfaBank, 'Macro Insights,' December 5, 2014.

The CPI is less volatile than the exchange rate, but the acceleration of inflation roughly coincides with that of ruble depreciation. However, there is another major influence on inflation that came into play in summer 2014: the Russian government ban on most food imports from countries imposing sanctions on Russia. Some 44% of Russia's total imports of these items in 2012 was affected.⁶ What proportion they constitute of Russian household consumption is a question that has yielded a wide range of answers. Aleksei Kudrin has asserted that 50% of Russian food consumption consists of imports (from all sources),⁷ but that may be too high. At all events the food embargo has added to inflation and is expected to continue to do so. One estimate of the impact on the CPI this year is an addition of 1.5% to the annual figure;⁸ that annual figure has more recently been put at 12%.⁹

The effect of the ruble's slide on the soaring rate of inflation (15.6%, at an annual rate, in early February 2015¹⁰) is strong, in other words, but it is not the only influence.

The other main consequences of the ruble's fall (excluding trade for the moment) can be swiftly, if sketchily, summarised.

The federal budget benefits from ruble depreciation because dollar-denominated oil and gas revenues form about half of its revenue, and amount to more in rubles as the ruble depreciates. However, the fall in the oil price works in the opposite direction. The net result in 2014 was a very modest deficit equal to 0.5% of GDP.¹¹

Russian bank assets, denominated in rubles, have risen as the ruble has depreciated, but have risen faster than bank capital, reducing their capital adequacy. The CBR has relaxed its regulation temporarily to accommodate this development. The banking sector is now in a rather fragile condition, attracting state support.¹²

The main point about migration has already been made. Migrant workers are more vulnerable to sacking than Russian employees, but the departure of so many is probably due primarily to the reduced dollar value of their ruble pay.

The top of Russian society has also, after its own fashion, suffered. *Forbes* estimates that between February

12 and December 16, twenty Russian billionaires lost 73 billion US dollars¹³. A large part of this fall was the decline in the dollar value of ruble-denominated assets.

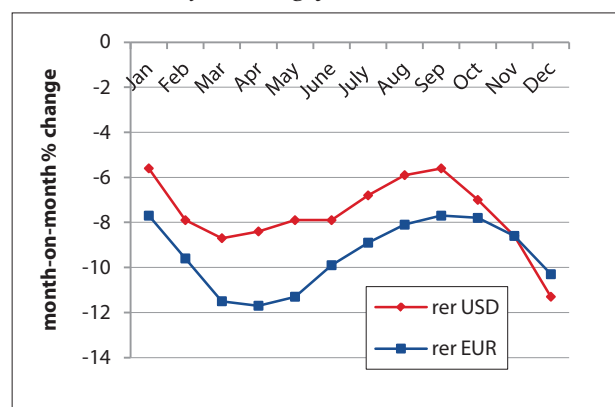
Prospects

Extreme economic uncertainty makes any attempt to forecast Russian developments hazardous. This certainly applies to the exchange rate of the ruble. At present, however, it looks quite likely that the oil price will stop falling in the course of 2015 as higher-cost production is taken out of operation, and the sanctions imposed on Russia may not be intensified, even if present restrictions remain in place. That would appreciably lessen the downward pressure on the Russian currency.

Where might the ruble settle, if it settles at all, in the medium term? It has been argued that at 32 rubles to the dollar at the end of 2013 the currency was overvalued.¹⁴ However IMF estimates for GDP at purchasing power parity (PPP) in 2013 suggest, on the contrary, that the currency was undervalued. The PPP rate was 19.1 rubles to the US dollar.¹⁵ The verdict of an overvalued currency may be based on Moscow prices for consumer goods and housing; prices across the whole range of GDP¹⁶ and the whole country are more to the point.

Figure 4 shows the real (inflation-adjusted) exchange rates for the ruble against both dollar and euro during 2014.

Figure 4: Real Effective Exchange Rates of the Ruble Against the US Dollar and the Euro During 2014 (Monthly % Change from the Previous Month)



Source: <www.cbr.ru>

6 <<https://theconversation.com/hard-evidence-who-will-reap-rewards-from-russia-farm-sanctions-32338>> By Jim Rollo. Posted October 8, 2014.

7 Aleksei Kudrin, 'Pravila igry,' *Kommersant*, October 9, 2014 (<<http://www.kommersant.ru/doc/2585078/>>)

8 Ol'ga Kuvshinova, 'Rossiiskuyu ekonomiku zhdet dvukhlyetnyaya retsessiya,' *Vedomosti*, October 6, 2014, citing Natal'ya Orlova of Alfa-Bank.

9 East Office of Finnish Industries, *op. cit.*

10 US-Russia Business Council, *Daily Update*, February 11, 2015.

11 *BOFIT Weekly*, January 30, 2015.

12 East Office of Finnish Industries, *op. cit.* See also Alfa-Bank, *Macro Insights, 'Banking Sector in Focus'*, February 2, 2015.

13 <<http://www.forbes.ru/rating-photogallery/276109-minus-73-mlrd-kak-bedneyut-bogateishie-lyudi-rossii/photo/1>>

14 Maksim Mironov, 'Nam vsem global'no pereplachivali,' *Vedomosti*, November 6, 2014.

15 IMF World Economic Outlook database, October 2014.

16 More precisely, the whole range of tradeable goods and services in GDP.

The chart shows that when rates of inflation in Russia, the US and the eurozone are allowed for, there was still a great deal of volatility, but the real exchange rate was moving relentlessly away from the PPP rate estimated by the IMF. There are many reasons why market-driven exchange rates deviate, even substantially and in the long term, from the PPP rate, and it looks as though the ruble, even when it does 'settle down', will remain substantially undervalued in relation to its domestic purchasing power.

Will the devaluation of the ruble stimulate exports and curb imports? It would be odd if it did not do so in some degree, but two considerations suggest that the effect will be limited. The first is that Russian industrial production, whether for export or as a substitute

for imports (e.g., of cars) has a high import content. The second is that domestic production lacks flexibility and the stimulus of competition.¹⁷

Imports, as Gurvich and others have argued, are likely to be curbed by a combination of higher ruble prices and state-imposed restrictions on the indexation of public-sector incomes and social benefits. Russian households will bear more of the cost of this crisis than they did in 2008–09.

The ruble will not go on falling indefinitely. It will stabilise, probably during this year. That will be good news for Russian citizens. What will happen to the main constraint on Russia's development, the Putinist social order, is less predictable.

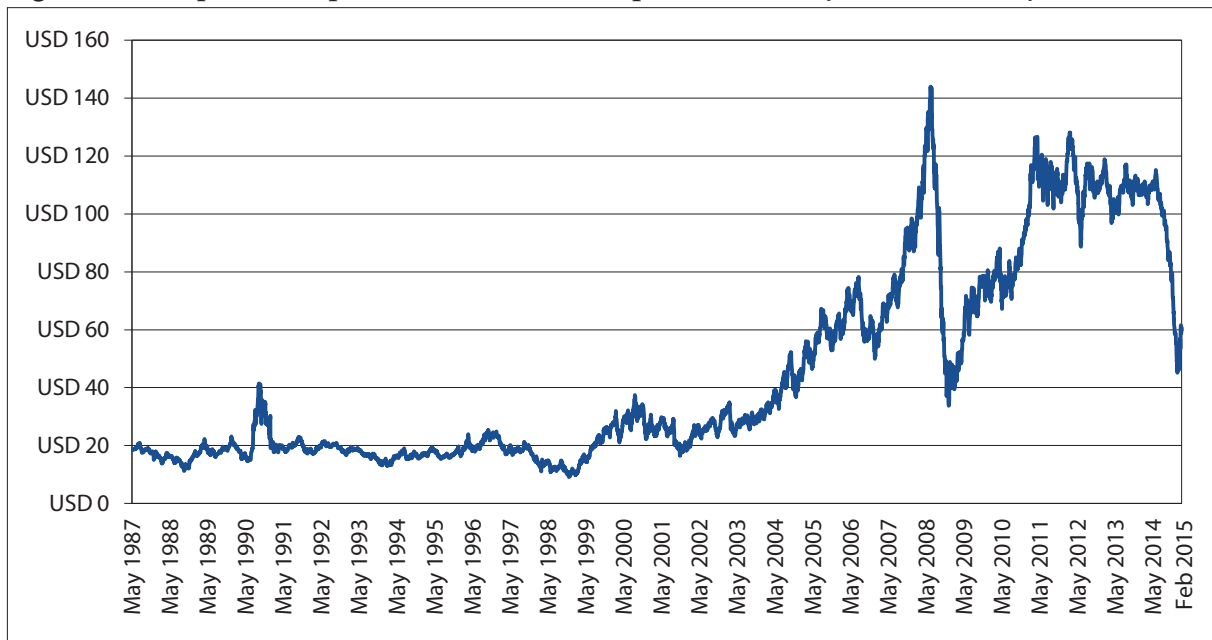
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STATISTICS

Oil Price and Ruble Exchange Rate

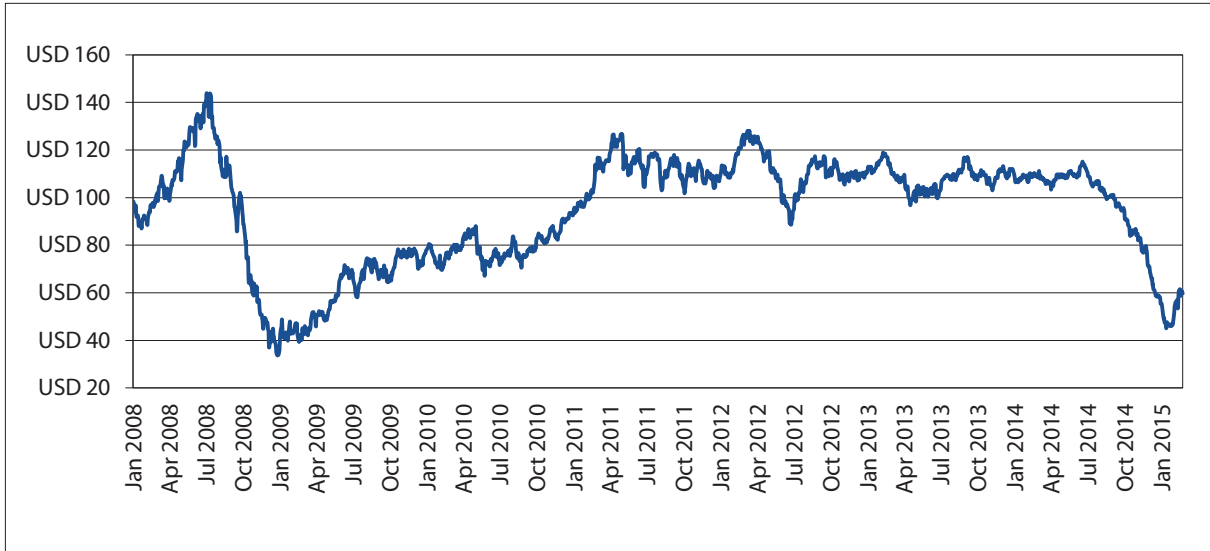
Figure 1: Europe Brent Spot Price FOB (Dollars per Barrel), May 1987–February 2015



Source: <http://www.eia.gov/dnav/pet/hist_xls/RBRTed.xls>; web site: <<http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PE&t=s=RBRT&f=D>>, accessed 28 February 2015

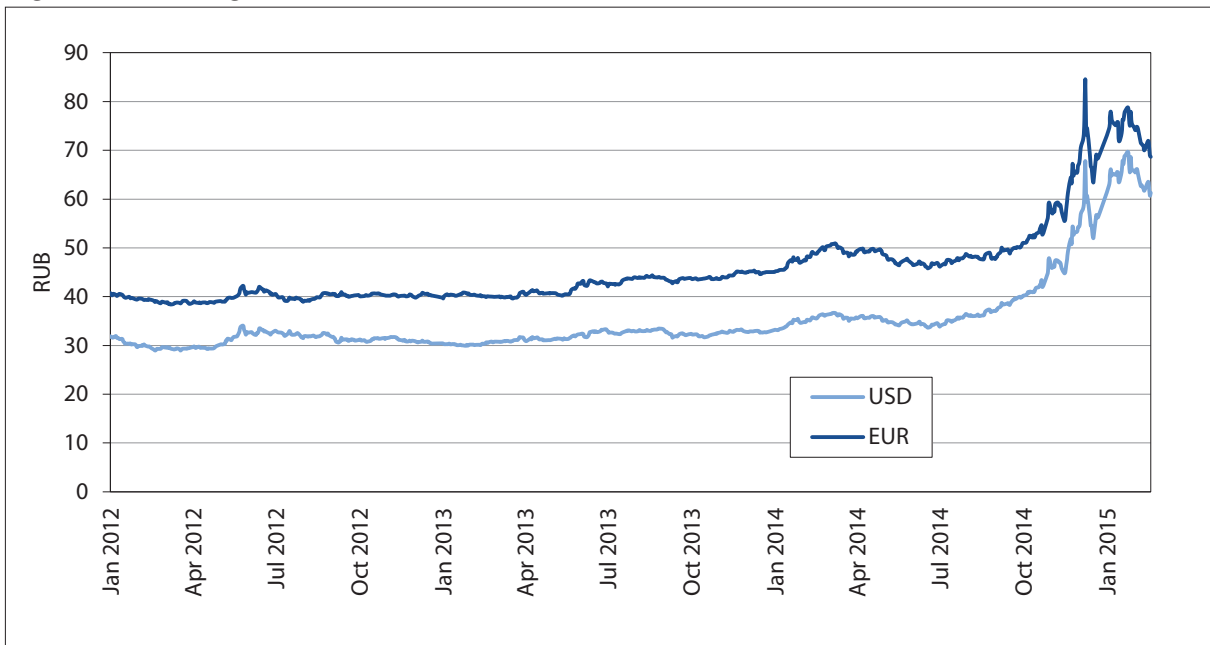
17 Yevsei Gurvich cited in Ol'ga Kuvshinova, Filipp Sterkin and Aleksei Nikol'skii, 'Minfin podgotovit voenno-sotsial'niy manevr,' *Vedomosti*, February 11, 2015.

Figure 2: Europe Brent Spot Price FOB (Dollars per Barrel), January 2008–February 2015



Source: <http://www.eia.gov/dnav/pet/hist_xls/RBRTD.xls>; web site: <<http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PE&t=s=RBRTD&f=D>>, accessed 28 February 2015

Figure 3: Exchange Rate of the Ruble to US Dollar and Euro January 2012–February 2015



Source: web site of the Central Bank of the Russian Federation <http://www.cbr.ru/currency_base/dynamics.aspx>, accessed 1 March 2015

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

By Stephen Crowley, Ohio

Abstract

During the 2008–09 economic crisis, Russia’s monotowns grabbed widespread attention as potential sources of social unrest. Will such worries resurface under the current economic conditions? While fears about monotowns were exaggerated during the last economic crisis, Russia’s leadership remains concerned. As a result, 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 post-Soviet industrial landscape.

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?”¹

1 *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.

The study—widely cited in the media and 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) Yevgenii 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.² Gontmakher (and the newspaper *Vedomosti* that published the article) were criticized by the government for “inciting extremism”.³

Just six months later, protests erupted in the monotown Pikalyovo, an event that was widely discussed in the Russian media.⁴ 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.”⁵ 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

2 Evgenii’ Gontmakher, “Stsenarii’: Novocherkassk-2009,” *Vedomosti*, November 6, 2008, no. 210 edition.

3 Nikolaus von Twickel, “Signs of a Kremlin Fearful of Unrest,” *Moscow Times*, December 12, 2008, no. 4051 edition.

4 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).

5 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>>.

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.⁶ 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 montowns were under 5,000 in population. Most range anywhere from 300,000 to over 5,000 in size.⁷

For all these reasons, the exact number of monotowns and their scope remains unclear.⁸ The official government list published in July 2014 by the Ministry of Economic Development includes 313 municipalities, of which 229 are larger than “settlements.”⁹ 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 (*neblagopoluchnaya*) “according to sociological surveys conducted by the Federal Protective Service” (FSO).¹⁰ 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.¹¹

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.”¹²

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.”¹³

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.¹⁴ 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%.¹⁵ 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.”¹⁶ 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.¹⁷ 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.¹⁸

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 2007.¹⁹ The concern that mass unemployment would sharply increase social tensions in the most worrisome monotowns led “Russian authorities to

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

7 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).

8 Zubarevich, *Regiony Rossii: Neravenstvo, Krizis, Modernizatsiya*, 86.

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

10 Pravitel'stvo Rossii, “O Kriteriyakh Otneseniya Munitsipal'nykh Obrazovaniy K Monogorodam I O Kategoriyakh Monogorodov v Zavisimosti Ot Riskov Ukhudsheniya Ikh Sotsial'no-ekonomicheskogo Polozheniya,” July 31, 2014, <<http://m.government.ru/docs/14049>>.

11 Ibid.

12 Zubarevich, *Regiony Rossii: Neravenstvo, Krizis, Modernizatsiya*, 86.

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

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

15 Ibid., 10.

16 Ibid., 12.

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

18 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).

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

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.”²⁰ 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 US dollars) 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 2010.²¹ 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.²²

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.²³ 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.²⁴

Why maintain such subsidies rather than provide incentives for people to relocate? Why not, in Zubarevich’s words, subsidize “people, not regions”?²⁵ Poland and Hungary, for example, used substantial government funds to cushion postcommunist unemployment, but rather than subsidize losing enterprises they essentially paid large numbers of workers to leave the labor force, by steering them onto disability and pension rolls.²⁶ 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.²⁷ 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).”²⁸

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.²⁹ While talk of Russia’s monotowns as a potential “time bomb” leading to a new Novochoerkassk are almost certainly overstated, workers lack institutional channels to express

20 Zubarevich, *Regiony Rossii: Neravenstvo, Krizis, Modernizatsiya*, 92.

21 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/>>.

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

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

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

25 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.

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

27 Gaddy and Ickes, *Bear Traps on Russia’s Road to Modernization*, 85.

28 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.

29 Petr Bizyukov, “Labor Protests in Russia, 2008–2011,” *Russian Analytical Digest*, no. No. 104 (October 27, 2011): 6–10.

their grievances effectively and this creates the potential that localized economic protests could become radicalized.³⁰ 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 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."³¹ 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.³² Needless to say, this industrial decay and worker protest has taken place alongside almost unprecedented levels of overall economic growth.

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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.³³ 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.

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

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

32 *Ibid.*, 5.

33 Lee, *Against the Law*.

ABOUT THE RUSSIAN ANALYTICAL DIGEST

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