



Russia's "Monotowns" Time Bomb

By Leon Aron

The uptick in world oil prices has saved Russia from a full-scale depression, yet second-quarter economic performance numbers released in late July show no respite from crisis, with GDP contracting at an annual 10.9 percent rate, the sharpest decline on record.¹ Historically, fall is Russia's time of trouble and revolution, when millions return to the cities from their dachas to face life—and in fall 2009, life means continued drops in production, growing unemployment, and deeper impoverishment, all of which are bound to translate into serious political challenges for the Kremlin. All three of these calamities converge in one economic, social, and political area: the country's 460 company towns, or "monotowns," as they are called in Russia today.

Products of Stalinist industrialization, Russian company towns were built around a single plant or factory (hence the official designation, the "monotowns"), often by prison labor in the middle of nowhere and with complete disregard for long-term urban viability and economic geography, not to mention the needs and conveniences of workers and their families. In addition to being the single employer, the so-called town-forming (or main employer) enterprise (*gradoobrazuiushchee predpriiatiie*) is responsible for providing all social services and amenities, from health care and schools to heat, water, and electricity. With populations ranging from 5,000 to 700,000, the monotowns seem frozen in the 1930s to 1950s.² The fat years of 2000–2008 have passed them by. Like virtually all of the real Russian economy, they were untouched by Vladimir Putin's "modernization," despite the drumbeat of official propaganda that promised to "bring industry into the twenty-first century" by making it "science- and innovation-based."

Many of these places were among the first to suffer from the plunge in industrial output in the

second half of last year, when production fell by almost 20 percent—a drop unseen in the Soviet Union or post-Soviet Russia since 1941–42, the years of the Nazi onslaught.³ As a result, town-forming enterprises began laying off or furloughing workers, and salaries were cut, delayed, or unpaid for months.

The Dearth of Federal or Local Assistance

For most Russian workers, unemployment benefits range from 850 rubles to 4,900 rubles (\$26 to \$152 at the current exchange rate) per month, depending

Key points in this Outlook:

- Russia's company towns are among the first to feel the effects of Russia's largely pre-modern and shrinking economy.
- Unemployment is rising, but local administrations can do little to aid residents.
- The Kremlin's neglect of the residents' growing desperation may ignite nationwide protests.

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on the worker's last salary.⁴ (For those in the severe climate zones of the far east, far north, and some regions of Siberia, the payments are up to twice these amounts.)⁵ By comparison, the official average monthly "minimum subsistence level" (*prozhitochnyi minimum*) for a working adult in Russia is 5,086 rubles (\$159).⁶

As many as two-thirds of the unemployed seem to be unaware of these benefits and thus fail to register: while there were an estimated 6.5 million unemployed in Russia in July (nearly 10 percent of the workforce), only 2.1 million were registered.⁷ (Not one of the many reports concerning company towns reviewed for this *Outlook* so much as mentions unemployment benefits as a source of sustenance.)

At the same time, local administrations in many regions cannot be of much help either, having been bled dry by yet another Putin-era recentralization reform, which redirected 70 percent of all local revenue to Moscow.⁸ As a result, already in April, grocery stores in some towns stopped selling on credit to customers who had not been paid for months.⁹ People were reported to be eating potato peels and spending days foraging in forests for roots and berries to eat or sell for pittance.¹⁰

The Pikalevo Crisis

The monotown of Pikalevo (population 20,000) near St. Petersburg grew desperate six months after the shutting of the town-forming cement plant. "We are eating grass," a town resident told a reporter this past June. "It's shameful."¹¹ Then the company that used to provide the town with heat and hot water, paid for by the cement plant, shut them off for nonpayment. With no prospects of work and without assistance of any kind, this was the last straw. When occupying the mayor's office brought no relief, the angry Pikalevians blocked a major highway.

A few days later, Putin helicoptered to Pikalevo. In a twenty-first-century update to an ages-old Russian crisis-management technique (in which "good" tsars throw "bad" boyars off the Kremlin walls to be torn, limb from limb, by the rebellious hoi polloi below), with national television cameras rolling, Putin berated the local administration; the plant's managers; and the owner of the key plant block, former aluminum king and once Russia's richest man, Oleg Deripaska, whose Basic Element conglomerate is now almost \$30 billion in debt.¹² Putin ordered those gathered to sign a pledge to reopen the plant. "I did not see you sign!" Putin barked at Deripaska on national television. "Come here and sign!" ("And

return the pen!" Putin snapped afterward. "Are things so bad for Deripaska" that he tries to steal a pen? one observer later noted sarcastically.)¹³

Of course, neither Deripaska nor the local administration will be able to keep a de facto bankrupt enterprise open for long.¹⁴ The money will have to come from Moscow. Thus, the only lasting effect of Putin's intervention is likely to be encouraging more protests in the hope of a federal handout.

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Togliatti, Magnitogorsk, and Zlatoust

Many other monotowns are also in desperate shape. Among the largest are Togliatti, Magnitogorsk, and Zlatoust.

Togliatti. Population: 700,000; East Central Russia; the Samara region; 560 miles southeast of Moscow. The town-forming enterprise: AvtoVAZ, Russia's biggest carmaker. The cause of the crisis: the production line stopped in August 2009. A twenty-hour workweek started in September and is scheduled to last until at least the end of February 2010. The average monthly salary was reduced by half to 11,000 rubles (\$344). When the company announced 5,000 layoffs in September, the Yedinstvo (meaning "unity") trade union responded with plans for mass protests.¹⁵ A week later, AvtoVAZ changed that figure to 27,600 layoffs, almost 30 percent of its labor force, and further reduced pension benefits.¹⁶

Magnitogorsk. Population: 500,000; South Urals; the Chelyabinsk region; 870 miles southeast of Moscow. The town-forming enterprise: the Magnitogorsk Metallurgical Plant. The cause of the crisis: four of the eight steel smelters were shut down in the second half of 2008, and the workers were placed on indefinite leave.¹⁷ The average monthly income of an employee at the beginning of the year was down to 16,000 rubles (\$500), and since then, salaries in the metallurgical industry have dropped another 20 percent.¹⁸

Zlatoust. Population: 188,000; South Urals; the Chelyabinsk region; 3,500 miles southeast of Moscow. The

town-forming enterprise: the Zlatoust Metallurgical Works. The cause of the crisis: due to the drop in demand, the steel alloys production at the plant has diminished by 80 percent since October 2008. The work-week at the plant has been cut almost in half, and the average monthly salary reduced to 7,800 rubles (\$244).

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The Monotowns: Far from Marginal

Although not all Russian towns are monotowns, monotowns are hardly insignificant: a quarter of Russia's urban population, 25 million people, live in them, producing up to 40 percent of the country's GDP.¹⁹ Indeed, company towns seem more and more like a bellwether of the national trend in job loss and destitution. So far this year, the World Bank projects the number of people below the poverty level will grow by 7.5 million to 24.6 million, or 17 percent of the population.²⁰ Another 21 percent, almost 30 million people, have incomes less than 50 percent above the poverty line and are listed by the World Bank as "vulnerable."²¹ Together, the two categories comprise almost four in ten Russians. And, according to the Federation of Independent Trade Unions, up to 400,000 more Russians may become unemployed in the next three months, with the World Bank projecting joblessness reaching 13 percent by the end of the year.²²

The Kremlin thus far has been helped by the censorship's iron grip on national television. Only the demonstrations in Pikalevo have been covered nationally. Moscow also has paid some salary arrears to the residents and used police to crack down on demonstrators. Yet, as the Iranian protests recently proved, in an age of cell phone cameras and the Internet, the media's deliberate neglect of the monotowns' growing desperation may fail one day, igniting a wave of nationwide protests.

The Structural Risk Multipliers: Obsolete Economy and Authoritarian Politics

The monotowns' increasingly obsolete economies, their crumbling infrastructures, and their largely immobile workforces—unable to seek employment elsewhere because of a lack of affordable housing—epitomize Russia's current predicament in a broader and more troubling sense. Thus, the government's mid-August decision to appropriate 10 billion rubles (\$315 million) to assist two hundred of the "nearly four hundred" monotowns "on the verge of explosion" is too little, and almost certainly too late.²³

Intoxicated by the oil-fed economic boom, Putin's Russia has dispensed with such democratic shock absorbers as uncensored media, responsible and viable political opposition in the national legislature, and genuine local self-governance. With rigid recentralization putting the political center of gravity in the Kremlin and with the road signs and traffic lights of societal feedback largely obscured and darkened, the danger of a major accident in the next six to eight months is a distinct possibility. And monotowns are perhaps the deepest and most proximate potholes.

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Notes

1. GDP contracted at an annual 10.9 percent in the second quarter ("the most on record") compared to 9.8 percent in the first quarter. The ruble lost 1.4 percent against the dollar, and unemployment is "rising." See Paul Abelsky and Alex Nicholson, "GDP Falls 10.9% in Surprise Drop," *Moscow Times*, August 12, 2009.

2. "Pravitel'stvo naschitalo v Rossii 400 monogorodov" [The Government Counted 400 Monotowns in Russia], *Businesspress.ru*, August 21, 2008.

3. Andrei Illarionov, "More Than a Catastrophe," *Georgetown Journal of International Affairs* (Summer/Fall 2009): 102.

4. "Minimal'noe posobie po bezrobotitse sostavliaet 850 rublei" [Minimum Unemployment Benefits Amount to 850 Rubles], *Polit.ru*, December 10, 2008, available at www.polit.ru/news/2008/12/10/bezz.html (accessed September 29, 2009); and "Politika dokhodov i zarabotnoi platy" [The Politics of Revenue and Wages], *PolBu.ru*, available at http://society.polbu.ru/policy_incomes/ch102_all.html (accessed September 30, 2009).

5. "Politika dokhodov i zarabotnoi platy."

6. Federal State Statistical Service, "Velichina prozhitochnogo minimuma za II kvartal 2009 goda" [Size of the Subsistence Wage in the Second Quarter of 2009], July 20, 2009, available at www.gks.ru/gis/tables/UROV-6.htm (accessed August 10, 2009).

7. "V Rossii naschityvaetsia 6,5 millionov bezrabotnykh" [There Are 6.5 Million Unemployed in Russia], BFM.ru, www.bfm.ru/news/2009/07/25/v-rossii-naschityvaetsja-6-5-millionov-bezrabotnyh.html (accessed August 23, 2009).

8. Vladimir Milov, "Mezhregiondyr" [The Interregional Hole], *Gazeta.ru*, June 15, 2009.

9. Anton Orekh, "Golodoobrazuiushchee predpriiatie" [A Hunger-Forming Enterprise], *Ezhednevnyi zhurnal*, April 7, 2009.

10. Ibid.

11. Ellen Barry, "Putin Plays Sheriff for Cowboy Capitalists," *New York Times*, June 5, 2009.

12. Yulia Latynina, "Kod dostupa" [The Access Code], *Echo Moskvy*, April 11, 2009, available at www.echo.msk.ru/programs/code/584620-echo (accessed August 13, 2009).

13. Alexander Ryklin, "Itogi nedeli. Antikrizisnik nash" [The Week's Results. Our Anti-Crisis Leader], *Ezhednevnyi zhurnal*, June 5, 2009.

14. Ibid.

15. "Russian Auto Union Plans Mass Protest at AvtoVAZ," September 17, 2009, Radio Free Europe/Radio Liberty Newline, available at www.rferl.org/content/Russian_Auto_Union_Plans_Mass_Protest_At_AvtoVAZ/1825015.html (accessed September 29, 2009).

16. "AvtoVAZ sekonomit na pensiiakh" [AvtoVAZ Cuts Back on Pensions], *Interfax*, September 25, 2009, available at www.interfax.ru/business/txt.asp?id=102126 (accessed October 6, 2009).

17. Owen Matthews and Anna Nemtsova, "Fear Comes to the Russian Heartland," *Newsweek*, February 14, 2009.

18. See "Putin soobshchil metallugram o novykh l'gotakh, a te poprosili eshche" [Putin Told the Metallurgists about New Tax Benefits and They Asked for More], *RIA Novosti*, July 24, 2009, available at www.rian.ru/economy/20090724/178554348.html (accessed September 9, 2009); and "Nachal'niki dorozhe podchinennykh" [Bosses Are Dearer Than Subordinates], *Trud* (Moscow), January 13, 2009, available at www.trud.ru/article/2009/01/13/nachalniki_dorozhe_podchinennykh.html (accessed September 9, 2009).

19. "Monogoroda Rossii: Kak perezhit' krizis?" [Russia's Monotowns: How to Survive the Crisis?] Institute for Regional Policy (Moscow), November 14, 2008, 1, available at www.regionalistica.ru/projects/detail.php?ELEMENT_ID=385 (accessed October 8, 2009).

20. Zeljko Bogetic, Annette De Kleine, Marco Hernandez, Oana Luca, Alisher Mirzoev, Shane Streifler, Karlis Smits, Stepan Titov, and Sergey Ulatov, "Russian Economic Report," *World Bank in Russia*, no. 19 (June 2009): 13, figure 1.11, available at <http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/305499-1245838520910/rer19-eng.pdf> (accessed September 29, 2009).

21. Ibid., 14, figures 1.13, 1.14.

22. Igor Bakharev, "Eshchyo 400 tysyach protivnikov vlasti" [400,000 More of the Regime's Opponents], *Gazeta.ru*, August 6, 2008; and Zeljko Bogetic et al., "Russian Economic Report," 5.

23. Evgeniya Pis'mennaya, "Rossiyskie monotekhnologii" [Russian Mono-Technologies], *Vedomosti*, August 17, 2009; and "Pravitel'stvo naschitalo v Rossii 400 monogorodov" [The Government Counted 400 Monotowns in Russia].