

# Problems of employment in Russian regions with excess labor force: Situation in services industry

*Problemas de empleo en regiones rusas con exceso de mano de obra: situación en la industria de servicios*

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## Abstract

The article presents an overview of services industries development in the most problematic regions of the Russian Federation. The assumption that the development of services in many regions will help stabilizing one of the most socially acute segments of the economy - the labor market, has been substantiated. The socio-economic problems affecting the world of work today are the result of an ill-conceived management policy in this area. The destruction of production ties, the privatization of large production plants and their unprofessional management led to a decrease in demand for labor and an increase in unemployment. The local authorities are still unable to solve the problem of unemployment in some regions of the Russian Federation. Moreover, many social groups situation is becoming more complicated from year to year. This can have painful consequences, especially in the Russian regions. Along with improving the situation on the labor market, it is noted that there is a need to ease the requirements of employers for job-seekers.

**Keywords:** services, labor market, employment, region, industry

## Resumen

El artículo presenta una visión general del desarrollo de las industrias de servicios en las regiones más problemáticas de la Federación de Rusia. La suposición de que el desarrollo de servicios en muchas regiones ayudará a estabilizar uno de los segmentos socialmente más agudos de la economía, el mercado laboral, se ha confirmado. Los problemas socioeconómicos que afectan el mundo laboral actual son el resultado de una política de gestión mal concebida en esta área. La destrucción de los lazos de

producción, la privatización de grandes plantas de producción y su gestión poco profesional condujo a una disminución de la demanda de mano de obra y un aumento del desempleo. Las autoridades locales aún no pueden resolver el problema del desempleo en algunas regiones de la Federación de Rusia. Además, la situación de muchos grupos sociales se está volviendo más complicada de año en año. Esto puede tener consecuencias dolorosas, especialmente en las regiones rusas. Además de mejorar la situación en el mercado laboral, se observa que existe la necesidad de aliviar los requisitos de los empleadores para quienes buscan trabajo.

**Palabras clave:** servicios, mercado laboral, empleo, región, industria

## **Introduction**

Russian services industry, unlike that of many foreign countries, does not produce the desired economic effect that could be expected, however, it is becoming an independent segment of the national economy. There are several problems that have not been resolved over the last two decades and are still keeping the industry from developing. In particular, an ill-considered management policy has led to socio-economic challenges confronting today's world of work.

## **Objectives**

The technological progress and automation of many industries resulted in a release of labor resources from the production sector; however, their transition to the service sector is limited. Thereby, the reasons for the decline of the employment in the service sector have to be identified.

## **Methods**

The present study used universal scientific research methods, such as analysis, synthesis, induction, and the method of scientific abstraction.

## **Results and Discussion**

The severance of former links during the transition to a market economy in Russia, the unfair privatization and subsequent poor governance of large production plants throughout the country, as well as a number of other negative factors led to a decrease in demand for labor and an increase in unemployment in its various forms. Today, the situation in many sectors of national economy can hardly be called stable; moreover, in our view, Russia is slowly moving from developing to underdeveloped countries category (Tarasov, Nagoev 2009). This situation can be addressed, but it is important to understand how relevant the development of individual sectors of the economy is, and what overall effect can be in the near future.

The services sector is gradually becoming a separate, independent area of Russian economy, an important contributory factor towards its effective development; at the same time, over the last few years, it has been steadily lagging behind that of leading world economies.

Today, this sector accounts for more than 63% of the working-age population. It can be assumed that the share of people employed in the service sector will increase, and therefore the number of people employed in non-public sector will grow. It should be noted that there is a tendency to a change in the structure of employment. The

structure of regional economy itself plays a key role in the employment structure: since the end of 2004, the statistics service classifies population employment by areas of activity and not by sectors of the economy as before (Tatuev, et al 2015). This circumstance does not allow showing a real picture of employment in terms of structural changes. Nevertheless, the analysis of employment dynamics over the last five years gives us the opportunity to draw certain conclusions.

In the period from 2013 to 2018 Russian services sector showed a significant increase in employment against the background of declining employment in agriculture, fisheries and processing industries. However, the employment trends in several regions of the Russian Federation did not always coincide with the all-Russian ones. Firstly, in all regions except the Jewish Autonomous Region, there was a decrease in employment in agriculture, forestry, hunting and fishing. The most significant reduction was noted in Kursk, Ryazan, Kirov, Irkutsk regions and the Republic of Mari El. Secondly, in most regions, except Belgorod, Amur and Kaliningrad regions, the Republic of Ingushetia, Kalmykia, Buryatia and Chukotka Autonomous District the employment in industrial sector decreased. Thirdly, in most regions (62 out of 83 regions) the employment rate in construction, production and distribution of electricity, gas and water increased. Fourth, employment in the wholesale and retail trade grew in all regions.

In general, the number of obstacles to further growth of employment in the service sector exceeds the number of factors contributing to it. The main conditions for overcoming the difficult economic situation of last two decades and subsequent progressive development are effective management and stability in most important strategic sectors of national economy.

One of the ways to solve accumulated economic problems is an effective policy in the field of labor relations. The labor market is an indicator of economic and social situation; it reflects the level of development of the State or its regions. Labor market consists of entities, some of which are workforce, others are individuals and/or legal entities that can use free labor resources to achieve their goals, and the relationship between them is a system-forming factor. An effective interaction of all subjects in this system can lead to positive results not only in this area, but also in other related fields.

In our opinion, the problems of employment are systematic and high unemployment is the most critical of them (Tatuev, et al 2015). However, as noted by some experts, the unemployment rate is record-low in Russia, unlike the developed countries of Europe and Asia. But in a number of Russian regions unemployment persists or even

grows, according to official statistics. At the same time, Russians have a longer job search and rarely turn to the employment services. As noted above, in the world ranking in terms of unemployment rate, our country is at 22nd position, and developed European and Asian countries, as well as the USA have higher unemployment rate compared to Russia. Our "neighbors" in this ranking are the United Kingdom, South Korea, Israel, Bangladesh, Indonesia, having 4–5% of unemployed working-age population. According to Rosstat (Federal State Statistics Service), the unemployed working-age population is 4.7% for the first half of this year. Thailand, which is first in this ranking, has only 1% of unemployed people. In the United Arab Emirates (UAE) this indicator is 1.7%, in Vietnam - 2%, in Switzerland - 2.4%, in Germany - 3.4%, in the USA - 3.9%. The nearest "neighbors" of Russia, for example, Israel and Bangladesh have 4.2% of working citizens not officially employed. Indonesia, whose economic growth is faster than that of Russia has a higher unemployment rate amounting to 5.1% (Electronic resource, 2018).

However, the current unemployment rate of 4.8% is very low for the Russian Federation. A decrease in unemployment has been observed since 2000. In that period, it was at about 10%, according to official statistics. Then, in 2008 and 2010, the unemployment increased, which was a consequence of financial shocks, in particular the so-called economic crisis, and over the past year, it fell by 0.5 points.

An increase in employment is stated by official sources, according to which the number of officially registered unemployed is about 3.56 million people, and this figure is not high, compared to other countries. In particular, representatives of the Ministry of Labor and Economic Development spoke about this before raising the retirement age, and this was one of the arguments in favor of adoption of this law.

Despite the decline in unemployment throughout the country, in some regions the situation is extremely unfavorable. Thus, in the Southern Federal District, the unemployment rate increased from 5.5% (in December 2017) to 5.6%. In the Far Eastern Federal District (FEFD), it remained unchanged - 5.1%. At the same time, the lowest unemployment rate is in the Central Federal District - 2.9%, the highest in the North Caucasus Federal District (10.4%). The following indicators are characteristic for employment situation in the country: at the end of the second quarter, the 48 % of unemployed were women aged 15 years and older, 64% - urban residents, 23% - youth up to 25 years old, persons without work experience - 31%. Russian citizens aged 25 to 39 have the largest share among unemployed people, representing 42% of total unemployed population (Electronic resource, 2018).

It can be noted that unemployment in the Russian Federation is somewhat sluggish. 45% of Russians are looking for a job for a year or more, and over the past year their share has increased by 7%. The average duration of a job search in Russia is 7.5 months. Moreover, in the coming years, the unemployment rate in Russia may rise.

Given the fact that pension reform will contribute to the high level of unemployment in the next 10 years, it will be more difficult to find a job. Therefore, some thought should be given now to how to reduce the unemployment.

In our view, the implications of pension reform have been misperceived. The government plans to reduce unemployment, but over 10 years its level could rise by 200% due to raising the retirement age.

According to the results of Federal Statistics Service studies, in 2018 approximately 75% of unemployed people first of all turned to friends and relatives when trying to find work, and only 25% turned to the employment agencies at the place of residence. As a result, we can observe a decrease in people's interest in such institutions, in particular, employment services, job fairs and others, which is explained primarily by the fact that they offer mostly low-paying jobs.

When referring to the period of Russian labor market formation, it should be noted that it has always been the sphere that directly or indirectly affected the national economy as a whole. In Russia, it took shape under the influence of various factors, but the most important is that during the transition from a planned economy to market relations, means of production and labor force already were commodities in market economies.

It took several years to understand and accept this state of affairs in the transition period. The organizations' leaders were not able to adapt to the changes in management principles and market requirements in the shortest possible time.

At the stage of the formation of new organizational and economic relations, many problems raised in the field of labor market regulation, which was caused by misunderstanding and copying Western-style methods for labor market regulation and employment management.

The mismanagement, and in some cases the misunderstanding of processes occurring in the labor market, the lack of elementary knowledge of the "new" managers led to negative consequences that we observe today and that the Government still cannot address. The problems of high and hidden unemployment are particularly important. The lack of knowledge and work experience in this area is not the result not of ill-conceived policies of the then leadership, but of too dramatic changes in this area.

The State was not ready for those changes, in

view of the lack of experience in managing labor relations and other economic areas in market conditions. All these and other negative factors have led to the decline in many areas of activity and several sectors of national economy. But it was the labor market that was especially negatively affected by the policies followed in the early 1990s, and it is in this area that the negative consequences of mistakes made during economic reforms are still manifested.

Today, there is a sufficient number of theoretical developments, labor market management techniques, foreign practices adapted to Russian realities, but the problems of labor market management have not become scarce. Moreover, today they are systematic, and in some areas catastrophic.

Returning to the situation in Russia, it is worth noting that economic activity is extremely unevenly distributed over the regions; therefore, Russians most often go to Moscow, Moscow Region and St. Petersburg in search of work. The employment situation is not bad in Siberia, where there is a high demand for labor in oil- and gas-rich regions.

In southern Russia, the unemployment is highest in Caucasian republics. The main reasons are a small inflow of investments, the lack of industrial enterprises, especially new and modern, where jobs were available. Another, probably the most important factor, is the limited quality of workforce in the region. Unfortunately, all the companies doing business there face this challenge. And the third factor is low population mobility: workers are not ready to move even to neighboring regions, despite the fact that the vacancy rate in all federal districts is growing, although at a different pace (Electronic resource, 2018).

So, in the regions of the North Caucasian Federal District, this rate is much lower than in Russia as a whole or, for example, than in the regions of the Ural Federal District: if in July 2018 the annual increase in the average number of vacancies per month was 43 % in Russia, in the Ural Federal District it was at 48%, and in the North Caucasus Federal District it was only 36%.

The problems are especially acute in the regions where the transition to market relations entailed the break in old production ties with the former USSR republics, after the privatization of many large industrial city-forming facilities that was mismanaged during several years. Due to these factors, many specialists flooded the labor market. The supply of labor exceeded the demand from employers. The consequence of this was an increase in unemployment, including the hidden one.

In this situation, the republics and regions of the North Caucasian Federal District, Kabardino-Balkarian, Karachay-Cherkessia and Ingushetia

Republics, as the most labor-surplus regions in which unemployment problems are of top priority, are most severely affected. This is also due to the fact that many city-forming and large industrial enterprises, which in fact gave a large number of jobs, were privatized or bankrupt.

One of the main causes of unemployment in Kabardino-Balkaria and Karachay-Cherkessian republic is the destruction of once largest USSR enterprises. In Kabardino-Balkaria, such production plants as “Telemechanika”, “North Caucasus Electrical Appliances”, machine-building, machine tool, low-voltage equipment plants were devastated in the mid-1990s. Later, in the 2000s, a just launched Russian-Chinese tobacco factory went bankrupt, as well as a medical equipment factory. The situation was similar in Karachay-Cherkessia. The cement, paint products factories, a refrigeration equipment and radio manufacturing plants, more than ten concrete products plants and other enterprises ceased to exist.

In Kabardino-Balkaria, an alcoholic beverage producing plant that employed much of the local population was closed for the violations of the tax legislation in 2013-2017. As a result, the market was occupied by alcohol producers from other Russian regions. The revival of other industries (reconstruction of the “Hydrometallurg” plant, construction of the “Ethan” chemical plant), initiated in 2005, was postponed until better times. The reasons for the production failure are numerous. It is characteristic that in both Karachay-Cherkessia and Kabardino-Balkaria, people without management experience nor skills took control of the government and thus of the process of redistributing the former state property in the transitional period of the 1990s (Electronic resource, 2018).

However, the problem of those managers was that, having become the owners of large industrial enterprises, they did not understand how an industry operates and regarded it only as a source of “quick money”. The ruthless exploitation of the equipment, cheap substandard raw materials, brain drain of engineers and skilled workers led to an industrial disaster. Today only the high-voltage equipment (NZVA) and “Hydrometallurg” plants remain operating of all enterprises built in Kabardino-Balkaria during the existence of the USSR. In Karachay-Cherkessia, rubber product factory, cement and refrigeration equipment plants are still operating. All these enterprises do not operate at full capacity, and only the name remains from the refrigeration equipment plant. Today it produces garden furniture and barbecues.

The decline in Karachay-Cherkessia and Kabardino-Balkaria manufacturing industries led to the fact that a huge number of skilled workers, engineers and other professionals were

unemployed. Some of them either left to work in the central regions of the country, or even immigrated to Europe. Their place in the labor market was partially taken by migrant workers from the countries of Central Asia and Vietnam. Those who could not start their own business, have to be employed doing piece or seasonal work and live on benefits (from 800 to 4,800 rubles a month (13–76 US dollars), paid within six months to a year).

Another reason for unemployment increase is the problematic situation in agriculture. The vast majority of farmers in both republics are deprived of the opportunity to rent land. For example, in Kabardino-Balkaria all lands for cultivation were leased out for a long time (49 years with the right to extend) to Russian citizens from other regions through nominees. Land is leased through auctions, where lots (allotments) are land areas of 500 to 3,000 hectares, while an average village inhabitant cannot pay the rent of more than 5-10 hectares, enough for small-scale farming.

According to the Ministry of Labor of Kabardino-Balkarian Republic, the number of unemployed officially registered in State employment agencies increased from 8,600 to 35,700 over two years (2015–2017). The unemployment statistics in Karachay-Cherkessia looks even worse. In September 2017, its level reached 11%, and by the end of 2017, every ninth resident of the republic was unemployed (with a total population of 467.6 thousand people, this figure is approximately 51 thousand people (as of 2017) (Electronic resource, 2019).

However, as early as on February 1, 2018, the unemployed rate in Karachay-Cherkessia made only 1.6% of the population (3,409 people). It turns out that comparing with the data for the end of 2017, unemployment decreased by more than 10 times.

In our opinion, this is unlikely even taking into account migration loss, since there are no objective prerequisites for such a sharp reduction in the number of unemployed in the republic.

According to the experts, the data of the Ministry of Labor on the number of unemployed do not correspond to the reality. It is clear that it is impossible to register all the unemployed. As a rule, even in economically prosperous regions of the Russian Federation - Novgorod and Orel regions, in Kamchatka and in the Yamalo-Nenets Autonomous Region - they are 2-3 times more than those registered in local employment agencies.

In addition, in some regions of the North Caucasian Federal District, there is a practice of underestimating unemployment rates. The Kabardino-Balkarian employment agencies have been confidentially instructed not to register new unemployed under various pretexts. The fake statistics, as well as formally held by the

republic's employment services annual "Job Fairs" are intended to demonstrate the success of government and the regional leadership in creating new jobs.

In both republics, the outflow of the population increased. Only in 2016, the migration loss in Kabardino-Balkaria amounted to 2,492 people. 10 535 citizens left the republic, and 8 043 people arrived, most of them being labor migrants. 3,427 people arrived in Karachay-Cherkessia, and 4,088 went away according to the data on migration for January-May 2017. Thus, the migration loss was 661 people. These processes are continuing, due to which tax levies have noticeably decreased in both republics.

The lowest wages by federal regions are the main reason for this outflow. Employers create low-paying jobs only in order to receive additional subsidies and other benefits from the state. In addition, the employer is always interested in a personnel "flow", since workers do not have time to create an effective union and put forward some requirements. Today, young people do not want to have lowpaid jobs and are seeking employment outside their region. The lack of career prospects is another reason for the outflow of the population from North-Caucasian republics, since all the positions that are significant and promising from the point of view of career are occupied by people with inadequate qualifications and competencies.

In our view, the unemployment rate can be reduced by creating comfortable conditions for the development of small and medium-sized businesses. The more developed the national economy is, the more diverse industries, the more competitive goods and services produced, the lower the unemployment rate. As shown by the experience of developed countries, the role of small and medium-sized businesses is extremely important, since state-owned giant enterprises are not able to create enough jobs and provide high productivity.

## Conclusions

Thus, at the current stage of national economy development, the role of the services sector is underestimated from the point of view of the functions that it performs, and as a result, the services sector infrastructure has been failing. Taken together, all the above factors allow to declare that Russian economy will not be able to achieve the indicators characterizing services economy focused not only on the growth of quantitative indicators, but on a qualitative improvement in economic and social situation, for several more decades. All this can be fully attributed to the regions, each of them having its own specific features, determined primarily by the prevailing socio-economic differences.

Many economic and social problems of the labor market are a consequence of illiterate management; this was especially true during the transition to market relations and labor market formation of the (Tatuev, 2015). The privatization of large production plants that were considered only as a source of quick wealth, in the absence of any strategic development plans, led to a decrease in labor demand, an increase in unemployment, and the transfer of specialists to other sectors. Today, the labor market is still reacting painfully to the economic miscalculations of the reform period.

Along with improving the general situation on the labor market, a balance has to be found between the requirements of employers and adequate self-assessment of job-seekers (Tatuev, 2015).

The problems of unemployment are especially acute in the regions of the North Caucasus Federal District, including the Kabardino-Balkarian Republic. According to official employment data, which, in our opinion, are artificially high, the region under consideration is second to last in terms of employment, passing ahead only the Karachay-Cherkess Republic in this regard. There is a negative balance of migration processes.

Young people who have graduated and cannot find a decent job are leaving, and people with a low level of professional skills from neighboring countries come to take their places. The republic is losing at least promising youth. Moreover, every year the social and economic situation of the population degrades. This trend may have the most negative consequences for several more years and entail not only social tension, but also worsen the criminal situation.

One of the ways to solve the problem is to create conditions for attracting young people to internships at the local enterprises, including students in higher education institutions. There is also a need to have closer interaction between employers and universities, in terms of the number of specialists needed in a particular enterprise in various fields of activity. Today, all the measures taken to reduce unemployment are for the most part formal.

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