Chapter 21 The Role of Regional and Local Governance in Dealing with the Socioeconomic Consequences of the COVID-19 Pandemic in Russia



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Abstract In Russia, in 2020, the pandemic led to a remarkable decentralization in the power distribution from the federal government to the regional authorities, which were free to choose restrictive measures and, in general, to implement strategies to deal with the pandemic and its consequences. Based on an analysis of legal regulations and statistical data, the chapter examines how policy measures varied among Russian regions and how they reflected the trade-off between spread of the disease, economic well-being, and political priorities, all highly dependent on the regional context. We conclude that although regional authorities acquired responsibility for the situation, during the pandemic they often had a lack of relevant resources to deal with its economic consequences. Crises primarily affected the market services sector, for example, hotels, catering, culture and leisure enterprises, and B2B services. The resulting unemployment rates varied highly among regions partly because of the initial differences in the sectoral structure of labor markets, but also due to the effectiveness of policy measures adopted by regional and local governments. The case of St. Petersburg, which recorded the highest death rates from COVID-19 in Russia, shows the incompleteness and contradictions in official

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statistics that complicated the adoption of governmental decisions. Inadequate regional and municipal budget planning and implementation undermined an effective policy response to the pandemic in the city.

Keywords COVID-19 · Pandemic · Power decentralization · Federal government · Regional authorities · Legal regulations · Regional and municipal budget · Employment · Service sector of economy

21.1 Introduction

The COVID-19 pandemic very quickly became a threat and not only to public health. The initial conclusions on the socioeconomic consequences of the pandemic were logical: a decrease in cross-border mobility and tourist flows, a decrease in production and consumption, disruption of global supply chains, and a drop in international trade (Leiva-Leon et al. 2020; Responding. . . 2020). According to preliminary International Monetary Fund (IMF) and UNCTAD estimates, global GDP in 2020 decreased by a record 4.3–4.4% (Ivanov and Svinova 2020; Gopinath 2020). Most experts attribute the COVID-19 pandemic to civilization-level systemic challenges affecting all aspects of the life of the modern world community, characterized by a change in the relative price of assets, a rapid decline in some areas (tourism, the automotive industry, passenger air transportation, container transport), and growth in others (digital industries, pharmaceuticals) (Auzan 2020; Vymyatnina 2020). The scientific community quickly reacted to the spread of the pandemic: specialists in different fields began to study the impact of coronavirus infection on the economy and society.

Political scientists consider the consequences of the COVID-19 pandemic primarily by comparing the success of different political regimes (democracies and autocracies) in countering it (Repucci 2020; Schmemann 2020; Youngs and Panchulidze 2020). According to the research, the most effective measures for containing the spread of coronavirus at the national level were forced restriction of mobility, which made it possible to stop or reduce transmission of the virus to unaffected or slightly affected regions (Frey et al. 2020), as well as domestic social restrictions, self-isolation, and transfer of the national educational system to online mode. According to one group of experts, collectivist societies that exist in an authoritarian political regime and ensure conformity, group loyalty, and obedience to the eldest in the hierarchy (Gorodnichenko and Roland 2017) were more successful in the crisis. Other researchers have noted the greater importance of factors unrelated to the political regime and the fallacy of reducing today's international problems to confrontation between democracies and autocracies (Burns 2020). Lifestyle and managerial culture (Milanovic 2020), as well as the level of trust between citizens and government, are more important than political schemes (Baunov 2020). In federal states, with many powers at the regional level while maintaining a number of decisions common for the country, the measures taken and their effectiveness markedly differed from one territory to another. For Russia, the opinion was expressed that the federal basis of the state played a positive role in combating the crisis, despite the recent erosion of federalism under the influence of overcentralized powers and finances at the federal level (Obshchestvo... 2020).

Economists study the consequences of the COVID-19 pandemic primarily through the prism of crises (Leiva-Leon et al. 2020) and cyclicality—not standard, but more complex, threatening a prolonged depression, since a macroeconomic crisis is exacerbated by a consumer crisis (Gopinath 2020). Emergency from the crisis is beleaguered by the growing debt burden due to continuing direct support of economies through fiscal measures, as well as aggravation of all other global problems requiring concentrated international economic coordination to solve (Maslennikov 2020). Studies by economists also consider in detail specific economic support measures at the national and regional levels, which differ in their effectiveness for various reasons: the level of economic development, peculiarities in legal regulation, and the financial situations of countries (Pilnikova et al. 2020; Ehrenberg et al. 2021). A special place is occupied by analysis of actions to support entrepreneurs and their employees, in particular, direct financing, introduction of a special tax regime and rent holidays, loans on preferential terms, information support, organization of temporary jobs, and so on (Rejting... 2020). Russian authors draw attention to the aggravation of longstanding problems in economic relations between the center and regions as a result of the pandemic, such as ambiguity in delineating powers between federal and regional authorities, limited budgetary resources of most regions, and lack of transparency in the interbudgetary transfer system (Kuznetsova 2020).

Uncertainty as to the duration of the pandemic, treatments, and measures to prevent the spread of COVID-19 complicates the plight of businesses and the public, posing threats not only to the economy, business models, and politics but also to lifestyles and social interactions, increasing anxiety and worsening emotional balance in society (Responding... 2020). The population's response to the spread of coronavirus infection was considered by social scientists primarily as people's perception of global challenges and threats. The risk of contracting coronavirus has brought the majority of Russia's population to a state of fear, faced with a global threat and the requirement of many significant changes in social behavior (restructuring of employment, change in work activity format, restriction of movement, lockdowns, physical distancing, and so on). According to studies, the pandemic itself did not generate new regimes or forms of employment, but it changed the proportions and configuration of existing forms (Obshchestvo. . . 2020). Timely studies conducted from March to June 2020 showed a wide range of people's possible reactions to the threat of mass disease and epidemiological safety requirements: from complete refusal to acknowledge (ignoring) to panicked fear and excessive (pathological) self-isolation (Nestik and Zadorin 2020). The content and dynamics of fears have since become little connected with COVID-19 itself, which since the beginning of April 2020 has been accepted by the majority of Russians as a fait accompli (Obshchestvo... 2020). People were primarily worried about the social and economic consequences, which the pandemic was highly likely to trigger.

Lastly, regionalist studies address the spatial aspects of the pandemic and subsequent crisis. In a number of studies, the spread of infection was modeled using the adapted theory of diffusion of innovations, which describes three mechanisms for spatial diffusion of the virus disease depending on the proximity of the source of infection (Mahajan et al. 2000; Wu et al. 2020; Kucharski et al. 2020). Deviations from the standard model were determined by random factors, including the actions of the authorities, the importance of which increased as the virus infection spread across a territory (Grant 2020).

Spatial aspects are extremely important for Russia, given the size of the country and the diversity of its territory, both naturally and socially. In accordance with the hierarchical diffusion model, the most susceptible to the pandemic are the largest agglomerations; densely populated cities with large airports; northern mining centers with rotating shiftwork; and regions close to large domestic and foreign markets, where the share of active and mobile members of the community is higher and both domestic and international relations are more intensive (Zemtsov and Baburin 2020). The spreading rate of coronavirus infection was higher in regions where the population was highly susceptible to disease, and lower in regions with a low level of trust in society, a smaller density of small businesses, and fewer points of intersection and communications of the most socially active part of the population, including due to low-intensity interactions within the community. The possibilities for the population and business to adapt to the consequences of the pandemic proved higher where there was a high degree of Internet coverage, various forms of remote work, and widespread use of online services (Zemtsov and Baburin 2020). Whereas in Moscow and other major cities, most workers could switch to working remotely, and in industrial areas with factories on a nonstop cycle, people continued to work, the negative economic consequences were more significant in regions dependent on tourism and small businesses in retail trade and consumer services. In turn, at the intracity level, an increased role of microgeographic, random, and subjective factors was revealed, associated, among other things, with the location of hospitals, nursing homes, and other places where people are concentrated.

Spatial differences in the economic crisis caused by the pandemic, the duration and character of its stages, as well as the role of the pandemic in increasing regional differentiation—which decreased at the shock lockdown stage—may further increase due to various spatial polarization factors, including quality of administration, access to vaccines, and the nonuniformity of digitalization. Differences in the rate of decline are due not only to the severity of quarantine measures that affected consumption indicators, but also to the structure of the regional economy, on which production and budget revenue dynamics depend (Zubarevich and Safronov 2020).

21.2 Formulation of the Problem: Materials and Methods

Throughout 2020, Russian authors analyzed various spheres in which the COVID-19 crisis manifested itself, and integral studies appeared (Obshchestvo... 2020, and so on). However, there is still no (nor could there be yet) sufficiently complete, consistent explanation for the spatiotemporal dynamics of the process. As for the epidemiological situation, new factors arising as the situation develops, which overlap in specific territories, are gradually complicating a spatial pattern that had initially become clearer. The novelty of the situation in the initial period and the increasing multifactorial nature of the spread of the pandemic make it difficult to develop a clear plan of action and adequate—regionally specific—administrative decisions that could limit spread of the disease and preserve economic well-being.

The objective of the study is to examine the crisis and response to it, with emphasis on regional differences. Our analysis covers two socioeconomic spheres where the crisis manifested itself particularly strongly: the tertiary sector of the economy and employment. Additionally, these were the main economic spheres of innovations in legal regulation. We investigate the role of governance in combating the crisis by comparing federal and regional legal regulation measures. The regional and local situation and measures are concretized with a case study of St. Petersburg.

The methodology of the study includes a multiscale approach (national, regional—by federal subjects, and local levels) and various quantitative and qualitative analysis methods, which are described in the thematic sections of the study.

Separate thematic segments of COVID-19 crisis research—legal regulation, the tertiary sector of the economy, employment, the regional (local) situation—are closely interrelated and in aggregate help to understand the peculiarities of its occurrence in Russia and adaptation to it. However, since each topic is also of independent importance, particular conclusions are presented in each thematic section. The chapter ends with general conclusions.

The study is based on aggregate federal and regional regulations, tax statistics, and employment indicators for the federal subjects. Data on the epidemiological situation in Russia as a whole and its regions were also used. In assessing the situation with COVID-19, the authors faced a number of problems caused by incompleteness and distortions in official Russian statistics (for details, see Sect. 21.3.4).

The analysis covers various time periods within the first year of pandemic: from several months to the whole of 2020; time periods depend upon the features of the analyzed phenomena, characteristic processes, and the availability of data. Further research is needed for consideration of the whole first-year dynamics and results.

21.3 Results and Discussion

21.3.1 Legal Regulation in Crisis Conditions

21.3.1.1 First Regulative Steps

In accordance with the objective of the study, this section analyzes¹ only those aspects of COVID-19 crisis management system that reflect the relationship of

¹The database of legal acts of the ConsultantPlus Reference Legal System "Consolidated Regional Legislation" as of April 20, 2021, was used.

different levels of governance. Due to the limits of the chapter, only those measures, which are most expressive for revealing the situation, are taken into consideration; at the same time, it is not so much the measures themselves that are analyzed, but their legal context. The limitation here is also possible because the measures that have affected the situation in the tertiary sector of the economy and employment are mentioned in the appropriate sections of the chapter. It is acceptable to limit consideration to the first few months of the COVID-19 crisis, that is, before the beginning of summer, although it does not negate the need for further systematic analysis, since this period provides enough material for fundamental conclusions about the relationship between different levels of legal regulation.

The nature of the spatial differences in institutional and legal decisions related to the COVID-19 crisis in Russia is determined a priori by three of the country's peculiarities: large size and internal diversity, federal state structure, and weakness of the municipal governance. Specific regional, city, and district measures depend on local factors: the epidemiological situation, its dynamics, and socioeconomic characteristics. Federal and regional decisions are studied simultaneously, giving a clearer view of the relationship between them or absence thereof. At first, administrative measures developed gradually, then snowballed.

The first signs of regulation at the federal level were medical and submedical departmental acts by the Federal Service for Supervision of Consumer Rights Protection and Human Welfare (Rospotrebnadzor) and its head, the chief health officer, in January 2020. Since then, Rospotrebnadzor have become the main regulator of federal decisions to limit the spread of the pandemic, as well as the authorities' chief daily mouthpiece for conveying information to the public. In early January of 2020, this information consisted of advisory letters about the situation with coronavirus infection and additional measures to prevent importation of the infectious disease (e.g., organization of laboratory diagnostics); in the second half of January, instructions on disinfection measures were issued. However, already on January 24, Rospotrebnadzor issued a decree addressed to federal subjects (both their senior officials and Rospotrebnadzor's territorial offices). They were recommended the approval of regional plans for organizational sanitary and antiepidemic (preventive) measures and measures to strengthen the current disinfection regime; at the same time, the question of ensuring the readiness of medical organizations to admit patients was already being raised. It was indicated that these activities should be financed by regional budgets. Several more resolutions, similar in essence, were subsequently adopted, which consistently reflected the spread of an unfavorable situation and severity of the tasks: whereas the first resolution (January 24) mentioned "in order to prevent the import and spread of a new coronavirus infection"; the one on January 31 stated "in connection with the threat of importation"; and the one on March 2, "on reducing the risks of importation" and the introduction of restrictive measures, taking into account the emerging epidemiological situation in the region. All these decrees were based on Federal Law of March 30, 1999, no. 52-FZ, On the Sanitary and Epidemiological Well-Being of the Population.

Following the first federal medical directives, restrictions on movements from outside of Russia began to be introduced in relation to certain countries: first China, then Italy, South Korea, Iran, Poland, and Norway; only in mid-March was the entry of all foreign citizens restricted. In addition, measures taken at the federal level contained special instructions for Russian territories with checkpoints at the state border with China (regions of the southern Far East) on testing for coronavirus infection and temporary quarantine of Chinese citizens with a residence permit in the Russian Federation. Among the sectoral measures of the very first period, we also mention the recommendations adopted at the beginning of February on special disinfection at public catering establishments. The Government of the Russian Federation, with its decree of January 31, 2020, supplemented the list of diseases posing a danger to others (approved in 2004) with the addition of coronavirus infection (2019-nCoV).

The first comprehensive federal management decision on the interaction of specialized executive bodies was adopted on January 27, 2020: an operational headquarters was created.

21.3.1.2 High Alert Regime

At the beginning of March, it became clear that not only regular sanitary and antiepidemic measures were mandatory, but decisive restrictive and prohibitive actions were also needed, which, as it seemed, would be impossible without "the operational participation of the country's top political leadership" (Obshchestvo... 2020, p. 415). However, their implementation began in a different, unexpected way for Russia, not from the federal center, but from regions.

A landmark event was the Decree of the Mayor of Moscow dated March 5, 2020, which introduced a high alert regime in the city.² Legal decisions related to this regime reflect important aspects of the national and regional agenda during the pandemic.

The high alert category is envisaged by amendment made in 2012 to federal law 68-FZ adopted in 1994.³ This regime results from the threat of an emergency situation and occupies a position between two other response levels on the part of the authorities: daily activities in the absence of a threat, and emergency in the case of its (the situation) occurrence and elimination. In the 2010s, a high alert regime was briefly introduced in different territories in many federal subjects. The reasons were mostly unfavorable meteorological conditions, seasonal natural hazards and disasters; less frequently, they were man-made accidents, sometimes social events and holidays fraught with potential societal tensions. However, it has always been a

²Decree of the Mayor of Moscow of March 5, 2020, no. 12-UM, On the Introduction of a High Alert Regime.

³Federal Law no. 68-FZ of December 21, 1994, On Protection of the Population and Territories from Natural and Man-Made Emergencies.

regime for the authorities, particularly functionally specific ones (related to the state system for prevention and elimination of emergencies); the regime is standardized, with measures elaborated beforehand.

From 5 to 20 March 2020, following Moscow, a high alert regime was introduced by all federal subjects on their territory (in many of them, also in individual municipalities). In several Far Eastern regions, the corresponding legal acts were adopted at the turn of January–February. In general, the adoption dates depended neither on the degree of the epidemiological situation (the number of cases—at that time, according to official data, in the overwhelming majority of regions such had not yet been identified) nor on any nonepidemiological objective factors. Some influence of the status of the capital and border (with European countries, if we are talking about March) position can be seen, which led to the earlier (right after Moscow) introduction of the regime in St. Petersburg, Moscow and Leningrad oblasts, and in the northwestern Russian regions.

In each federal subject, a high alert regime is introduced via a legal act by its highest official or government (sometimes both). Mandatory rules of conduct are addressed to citizens and organizations.⁴ In a quarter of regions, the wording about the regime "on the territory" is used without direct mention of the response agencies. Thus, the unusual phrase "high alert" has suddenly determined public discourse, social life, and the life of every person in Russia. Due to confusion among representatives of the authorities, their traditional inability to talk with the people, or the uncertainty of the situation itself, the essence of the high alert regime was not publicly explained, only the measures associated with it were listed. As a result, people perceived high alert primarily as a call to themselves in relation to their own actions. At first, in April–May 2020, this phrase generated heightened anxiety and mobilization associations, especially among residents of large cities, who faced the greatest restrictions.

For more than a year during the pandemic, the regional authorities have repeatedly changed the measures within the high alert regime depending on the epidemiological situation: intensifying and expanding, then easing and narrowing. However, this dependence, and ambiguous⁵ even back then, can be traced at the level of individual regions, although not in totality: at the same morbidity level, the regulatory measures and set and degree of restrictions differ, and vice versa: the situation differs, but the measures are the same.⁶ Just like the spatial chronology of the

⁴However, the orders of regional and municipal departments and organizations regulated their own work regime and the behavior of their employees at work and in the performance of official duties.

⁵For a little more than a year of the pandemic, in some regions, acts were changed less than ten times; in most, dozens of times; and in some, more than a hundred. Obviously, such a spread cannot correspond to either the dynamism of the epidemiological situation or the particulars of legal adjustment to the situation; it can be explained only subjectively.

⁶According to (Obshchestvo... 2020), wearing masks was mandatory in 81 (out of 85) federal subjects; self-isolation has been introduced in 71 regions; a pass system, in 47; restrictions on movement between individual municipalities, in 20; administrative liability for violation of the regime, in 15; quarantine, in 10; partial suspension of transport links, in 8; restrictions on entry into a region, in 5.

regime's introduction, it is impossible to recognize the reasons for particular measures: the logically expected correlation with the geographic location of a region and degree of connectivity with other parts of the country, population concentration, ethnocultural characteristics of lifestyle, economic situation, level of healthcare, and so on, is weak and not present everywhere, if it exists at all. There are some indications that these factors play a larger role in municipal decision-making, but this requires special analysis. It is obvious that along with the sanitary and epidemiological situation, the authorities are guided by economic, social, and political priorities as they understand them, and the latter motives often outweigh the former.⁷

Only on April 1, 2020, were amendments⁸ made to the federal law no. 68-FZ associated with coronavirus infection and the high alert regime. "Spread of disease dangerous to others" was added to the definition of an emergency situation. However, the following provisions were especially important in the delineation of powers, which is one of the purposes of the law, which had no analogs in its previous version:

- (a) The Government of the Russian Federation "makes a decision on the introduction of a high alert or emergency regime on the entire territory of the Russian Federation or part thereof in the event of a threat and/or emergency of a federal or interregional nature" (Article 10, subparagraph a.1).
- (b) The Government of the Russian Federation "establishes rules of conduct that are binding to citizens and organizations when a high alert or emergency regime is introduced" (Article 10, subparagraph a.2).
- (c) Public authorities of the federal subjects in cases of emergency situations of a regional or intermunicipal nature "establish rules of conduct that are binding to citizens and organizations when a high alert or emergency regime is introduced" (Article 11, subparagraph 1u) and, taking into account the specifics of an emergency situation in a region, "may establish additional rules of conduct that are binding on citizens and organizations..." (Article 11, subparagraph 1f).
- (d) The priority of federal rules over regional is established: the latter cannot contradict the former (Article 11, Clause 1.1).

⁷Numerous social and political events (in 2020 and early 2021, they abound) significant for the entire country or for individual regions and municipalities were used by the authorities to weaken or strengthen restrictive measures. In turn, the measures were widely used to regulate the political agenda: e.g., restrictions on holding mass events served as a permanent basis for prohibiting protests, but they did not interfere with the organization of pro-government or official state actions with an incomparably larger number of participants. The most recent example is the sudden, but not justified by the epidemiological situation, reduction in the permissible number of those present at meetings by a subsequent (49th in a row) amendment to the Decree of the Governor of Novgorod oblast of March 6, 2020, no. 97, On the Introduction of a High Alert Regime 4 days before the start of the All-Russian Congress of Independent Municipal Deputies, which the authorities frowned upon (Zemsky Congress in Novgorod does not fit, *Kommersant*, May 22, 2021. https://www.kommersant.ru/doc/4818642. Accessed May 23, 2021).

⁸Federal Law of April 1, 2020, no. 98-FZ, On Amendments to Certain Legislative Acts of the Russian Federation on the Prevention and Elimination of Emergencies.

Note that the amendments to 68-FZ were adopted after all federal subjects introduced a high alert regime and established and even expanded restrictive measures, referring to 68-FZ in its previous edition. At the same time, in March 2020, "the law could be relatively controversially applied to antiepidemic measures" (Obshchestvo... 2020, p. 418). The nature of emergency situations in it was defined only as natural or man-made. The role of the federal and regional authorities in the high alert regime was indicated exclusively in relation to "the activities of governing bodies and forces of the unified state system for the prevention and elimination of emergencies," but not in relation to the rules of conduct for citizens and organizations. The high alert regime did not assume the possibility of significant restrictions on human and civil rights and freedoms. Thus, the federal law of April 1 legalized what was previously illegitimate in the regions.⁹ However, not de jure, but in the aspect of epidemiological safety, the actions of the regional authorities should de facto be assessed positively. It can even be said that in conditions of lag (confusion, indecision?) on the part of federal authorities, regional authorities have saved the situation, attempting to slow the spread of COVID-19 with the introduced measures. This especially applies to the Moscow Mayor S.S. Sobyanin¹⁰ and leaders of a number of other densely populated regions with the most open external relations, who followed the mayor's example.

The next day the amendments to the 68-FZ were adopted, in accordance with its new 10th Article, the Government of the Russian Federation defined the rules of conduct for citizens and organizations.¹¹ In their content, they are of the most general universal nature and deal with response to notification, compliance with public order, and the requirements of relevant legislation, evacuation rules, and so on.

A high alert regime on Russia's entire territory or part thereof was never introduced by the Government of the Russian Federation. The specific content of the high alert regime is determined in each federal subject by its highest official and differs significantly among subjects. Measures can be divided into four groups: (1) restrictions and prohibitions; (2) control over compliance and responsibility for nonobservance; (3) support for citizens and businesses; and (4) definition of industries, organizations, and persons not subject to certain restrictions and prohibitions.

⁹For example, it was in the framework of 68-FZ (according to the preamble of the Decree of the Mayor of Moscow of March 5, 2020, no. 12-UM) that a universal self-isolation regime was introduced in Moscow from the end of March 2020, forbidding to leave one's place of residence with a few exceptions for urgent reasons. By the morning of March 31, another 25 regions had introduced a self-isolation regime, and the day before, such a request had come from the federal level, the prime minister.

¹⁰With all the ambiguity, inconsistency, and lack of developed measures, which often led to organizational misunderstanding and excesses, especially regarding the rights of citizens (e.g., reduced fares on Moscow public transport were blocked on the social cards of schoolchildren, students, and those aged 65 or older).

¹¹Decree of the Government of the Russian Federation of April 2, 2020, no. 417, On Approval of Rules of Conduct Mandatory for Citizens and Organizations, When a High Alert or Emergency Regime Is Introduced.

Generalized maximum restrictions during the acute phase of the pandemic included bans on sports, entertainment, public, and other mass events in the full-time presence of citizens; restrictions on the operation of public eating establishments and certain categories of trade enterprises, beauty salons, and similar institutions; restrictions for students to visit educational organizations of all levels and profiles; restrictions on visiting cemeteries and religious sites; restrictions on repair and construction work in residential and nonresidential premises; the duty to inform about movements of citizens and contacts with sick people; observance of the self-isolation regime; use of personal protective equipment for respiratory organs and hands when in public spaces; and so on. Failure to comply with the measures is punishable by fines applicable to both organizations and individuals. Support for citizens at the regional and municipal level included remote provision of state and municipal services, delivery of groceries and other goods, and targeted social assistance. The most significant assistance, including financial, was provided in accordance with federal, regional, and municipal regulations and included for organizations, individual entrepreneurs, and citizens: tax and credit breaks, identification of affected industries and businesses, limits of business inspections, assistance in organizing work, institutional changes in unemployment and job seeking (see Sect. 21.3.3), targeted financial assistance, and compensation to tourists. This is far from a complete list, but no matter how long it was, in monetary terms, the volumes of direct and indirect assistance were small.¹²

In 68-FZ, high alert and emergency regimes are mentioned together and linked by the conjunction "or." The only criterion for differentiating them is very tenuous: the threat of an emergency situation or its onset. According to the classification,¹³ an emergency situation is of a federal nature if the number of people who died and/or suffered injury to health is more than 500; it is of a regional nature if more than 50 people. In Russia, the death toll from COVID-19 exceeded 500 people on April 22, 2020 (cases of infection: on March 25, three-fifths were in Moscow; on March 29, already without Moscow, but with differences of up to one or two orders of magnitude between regions).¹⁴ In Moscow, there were 50 cases by March 13 and 50 deaths by April 10. Based on the definition of an emergency¹⁵ and morbidity and

¹²At the beginning of April 2020, the Moscow mayor had an odd message, that it was wrong to pay everyone, because "the budgets have cracks" and even the healthcare system could not be provided for (https://www.rbc.ru/society/03/04/2020/5e874f352ae596dd7c9fe4ae (accessed March 23, 2021).

¹³Decree of the Government of the Russian Federation of May 21, 2007, no. 304 (as amended on December 20, 2019), On the Classification of Natural and Man-Made Emergencies.

¹⁴In the section, quantitative values are given according to official data presented on coronavirusstat.ru

¹⁵"An emergency situation is a situation in a certain territory that has developed as a result of an accident, a dangerous natural phenomenon, a catastrophe, spread of disease posing a danger to others, a natural or other disaster that may or has resulted in loss of life, damage to human health or the environment, significant material loss, and violation of people's living conditions" (68-FZ as amended on April 1, 2020, Article 1).

mortality statistics in March–April 2020, in a number of federal subjects, primarily in Moscow, nonrequalification of the previously adopted regime seems argumentative. It may be that the emergency regime was not declared as a more alarming one, but not all measures adequate to the situation could be taken within the framework of the high alert regime (see Sect. 21.3.4).

Additionally, in a number of regions, in April–May, due to local outbreaks of disease in individual municipalities, a quarantine was declared in the form of a ban on movement outside their borders. Only in Krasnodar krai, as a resort region, was the quarantine extended to the entire territory to protect its residents in relation to an inflow of vacationers from other federal subjects during the nonworking days announced in the country (see below). In addition, in 40 regions, as well as by many federal agencies, the high alert regime was recognized as force majeure, which made it possible to mitigate the institutional and economic consequences of COVID-19. However, its dissemination, as explained by the Supreme Court, is not a universal force majeure, and in many cases, court decisions that take into account the specific conditions for application of this category are indispensable.

21.3.1.3 The President of Russia and Federal Subjects

The country's top political leadership, represented by the government, began to actively participate in combating the spread of COVID-19 in mid-March, when the situation in Russia, in contrast to many other countries, was still perceived as relatively calm.

On March 11, WHO Director-General announced the assessment that COVID-19 can be characterized as a pandemic. "There are now more than 118,000 cases in 114 countries, and 4,291 people have lost their lives" (WHO Director... 2020). By this time, there were 28 cases in Russia. WHO called for countries to take urgent and aggressive action.

"In connection with the announcement by the World Health Organization of a pandemic" by Decree of the Government of Russia of March 14, 2020, no. 285, a Coordination Council was established to combat the spread of new coronavirus infection in the Russian Federation; it was headed by prime minister M.V. Mishustin. Moscow mayor S.S. Sobyanin, who had already shown himself to be the most active and decisive in introducing a high alert regime, became the first deputy chairman of the council; the next day, by decree of the president of the Russian Federation, he headed a working group of the State Council to counter the spread of COVID-19. The imposition of both roles on the head of a federal subject, even taking into account its status as a capital, indicated a change in the configuration of power, which had previously been firmly centralized at the federal level. The purpose of the Coordination Council is to ensure interactions between federal authorities, federal subject authorities, local authorities, and other bodies and organizations, including for the development of proposals to combat the spread of COVID-19. Sobyanin's commanding role was firmly entrenched at the national level for a long time, and Moscow's experience was extended to all regions.

During March 16–18, 57 federal subjects adopted legal acts on the introduction of a high alert regime, and by March 21 it was already in effect in all 85 federal subjects (although cases were revealed in only half of them, 306 people in total). At the same time, federal agencies continued to adopt regulations governing all public spheres. On March 24, the Ministry of Health of the Russian Federation launched an electronic service for COVID-19 for citizens.

Finally, on March 25 (658 cases, or 4.5 per 1 million people, in two-thirds of regions), for the first time since the beginning of the pandemic, the President of Russia publicly made an "Address to the Citizens of Russia."¹⁶ Nonworking days with preservation of wages were announced (from March 30 to April 3). This regime has become a key instrument at the national level (adopted without agreement with federal subjects) to reduce the spread of COVID-19. Thus, the risks of economic losses from the pandemic fell on businesses and citizens, since employers either ensured the transition to remote work or paid employees' wages in full for the period of actual downtime. It was emphasized that all life support structures, including medical institutions, pharmacies, shops, banking, financial institutions, transport, as well as authorities at all levels, would continue operations. The second topic of the address was the announcement of social security of citizens, preservation of their incomes and jobs, as well as support for small and medium-sized businesses.

One week later, on April 2 (the number of cases reached 3500, registered in ninetenths of regions), V.V. Putin delivered a second address.¹⁷ He announced an extension of the nonworking regime with preservation of wages until April 30 (ultimately, until May 8). Almost the entire population regarded the more than a month of downtime with bewilderment and trepidation, rightly fearing a decrease in income or loss of work, especially since monetary compensation had just been promised and concerned only a small part of the population. The alarming expectations were justified: according to Zubarevich and Safronov (2020), in comparison with 2019, in April 2020, personal income tax (PIT) receipts to the consolidated budgets of regions decreased by 19% in total; in April–June, by 10% (Zubarevich 2021).

In the second address, Putin decreed¹⁸ the granting of "additional powers" to federal subjects (such words are absent in the decree itself). Putin explained that in such a large and diverse country, it was necessary to take into account the peculiarities of regions and municipalities: "In some places, more stringent restrictions must be observed, and in others, while maintaining a high level of availability, there are now sufficient local, point solutions." Such a political step in a federal state might seem unnecessary,¹⁹ if centralization of power in Russia is not taken into account.

¹⁶http://www.kremlin.ru/events/president/news/63061 (accessed March 23, 2021).

¹⁷http://prezident.org/tekst/stenogramma-obraschenija-putina-k-grazhdanam-rossii-02-04-2020. html (accessed March 23, 2021).

¹⁸Decree of the President of the Russian Federation of April 2, 2020, no. 239, On Measures to Ensure the Sanitary and Epidemiological Well-Being of the Population in the Territory of the Russian Federation in Relation to the Spread of New Coronavirus Infection (COVID-19).

¹⁹Conversely, in Germany, e.g., Angela Merkel stated that if the states do not take necessary restrictive measures, then they can be adopted by federal law (Merkel fordert härteren Kurs der Länder. https://www.tagesschau.de/inland/innenpolitik/merkel-annewill-corona-101.html (accessed March 28, 2021)).

According to this decree, the heads of federal subjects had to ensure the development and implementation of a set of restrictive and other measures, including identification of the relevant territories; suspension (restriction) of the activities of individual organizations located in the corresponding territory, regardless of the organizational and legal form and form of ownership, as well as individual enterprises; and establishment, if necessary, of a special procedure for the movement of people and transport. Thus, the heads of federal subjects were ordered to do what they had already done since the adoption (in March) of regional acts on the introduction of a high alert regime and to which they received the right (April 1) according to the newly amended 68-FZ. As a result, in our opinion, the meaning of the decree lies not so much in expanding the "political mandate" for regions to take independent measures (Obshchestvo... 2020, p. 416), but in making regions responsible.

The presidential decree contained two provisions that, as it were, gave regional authorities freedom to maneuver: it was they who determined which enterprises and their employees would continue to operate on nonworking days, and which essential enterprises²⁰ could not (as agreed upon with the Government of the Russian Federation). The second, however, caused a struggle of regions over which enterprises would be classified as essential and would be able to continue to operate. Each federal subject created a regional list of enterprises playing a systemic role.

The next public action of the President of the Russian Federation was a video meeting with the heads of federal subjects, which took place on April 8 (almost 8600 thousand cases registered in 81 regions; in all 85, they would be revealed only on April 17), and broadcast on TV and included the third address to the citizens of Russia. It was not easy to combine President Putin's calls to action. On the one hand, nonworking days were announced, while on the other, "it is impossible to massively restrict the work of enterprises. Many companies in capital continued to work or have switched to remote work."^{21,22} At the meeting, the regional heads, in describing their progress in implementing plans for preventive measures, raised the issue of federal funding. The Ministry of Finance was instructed to give the regions the opportunity to act flexibly; however, according to N.V. Zubarevich (2021), as a result, the regions were forced to spend additional funds mainly on goals prescribed from above.²³

Two more similar presidential decrees on instructions to regions to ensure the sanitary and epidemiological well-being of the population were adopted on April 28 and May 11; the latter is still in force. The high alert regime introduced by federal subjects on their territories continued. The measures it envisaged at the initial stage of the pandemic began to relax mainly in June 2020.

²⁰An enterprise whose products or services are important for the vital activity of a particular territory or functioning of a particular industry or socioeconomic system of a region.

²¹ http://www.kremlin.ru/events/president/news/63176

²²According to Sobyanin at this meeting, "to close industrial plants, construction plants, construction industry, metalworking, and the production of building materials. . .would be improper."

²³The Governor of Moscow oblast also addressed this at the meeting.

21.3.1.4 The Center and Regions: Innovations at the End of the First Pandemic Year

The responses to subsequent developments in the summer and fall of 2020 were not as novel as the fundamental legal decisions at the initial stage of the pandemic in Russia, in March–early May 2020, and were generally predictable. The downturn of the first wave of COVID-19 since early summer and a gradual decrease in the number of new daily cases in Russia by a factor of 2.5 (from 11,656 at the peak, May 11, to 4696, August 25), in Moscow, by a factor of 11 (from 6703 to 619 at the same period), led in the regions to a gradual removal and relaxation of a number of restrictive measures under the high alert regime. The second, much higher wave of a pandemic with an increase in the number of daily new cases from the end of September to the third decade of December by a factor of 4.7 (from 6.5 to 30 thousands) in Russia and of 8 (from 1.05 to 8.2 thousands) in Moscow caused the return and strengthening of restrictive measures until the beginning of March 2021. They varied by region, but, despite the greater severity of the epidemiological situation, in general, in terms of the set and implementation mechanisms repeated the 2020 spring measures or were even less severe.

The beginning of 2021, however, was marked by the legal formulation of a radically different approach to organizing actions in the event of situations like the COVID-19 pandemic. This innovation has not yet attracted researchers' attention, although we think it is extremely important in the context of the relationship between the federal and regional levels of governance. On January 4, the President of Russia issued the Decree (no. 12) Procedure for Actions of Public Authorities to Prevent the Threat of Emergency Situations Associated with the Introduction of Dangerous Infectious Diseases and Spreading Thereof in the Territory of the Russian Federation. It solves a fundamental problem defining a set of measures and regulating the interaction of public authorities. The decree speaks of three territorial risk levels (outside Russia, in its territory, and in one or several federal subjects) and the functions of various departments in the event of risk at each level. The decree fixes what was done spontaneously at the beginning of the pandemic, that is, the creation of a Coordination Council under the Government of Russia and federal operational headquarters; however, other legal provisions it contains are different from the 2020 experience.

In accordance with the decree, the Government of the Russian Federation on March 27, 2021, with its order (no. 741-r), approved the Unified Algorithm for Interdepartmental and Interregional Cooperation to Prevent the Threat of Emergency Situations Associated with the Introduction of Dangerous Infectious Diseases and Spreading Thereof in the Territory of the Russian Federation. The main roles at all three levels are assigned to federal authorities, while regional authorities play auxiliary roles. Even at the third risk level, participation of regional authorities is not envisaged in the development of an action plan and preparation of proposals for the introduction of restrictive measures. It is the operational headquarters that should develop an action plan and prepare proposals for the introduction of restrictive

measures (including quarantine), organize an information campaign, and inform the population about the measures taken. The tasks of regional and municipal authorities are to ensure the regulation of entry into and exit from settlements in case of restrictions; compliance with the ban on holding mass events (one of the few decisions taken independently is to close places of mass stay of people); compliance with the instructions of the Rospotrebnadzor; introduction of restrictions in educational organizations; security of water supply and food, preventing environmental pollution; observance of restrictions by trade and service organizations dealing with the public; implementation of sanitary and antiepidemic measures.

Thus, after a year of the pandemic, federal subjects do not retain the powers they were endowed by the new edition of 68-FZ, adopted on April 1, 2020, and the 2020 spring presidential decrees. Perhaps this means that, in the opinion of the country's top political leadership, the federal subjects did not cope with the tasks. Perhaps, this is the way the experience accumulated in 2020 in the distribution of powers to prevent threats to the epidemiological well-being of the population is comprehended. Maybe, also in this area, this is just a return of governance to the centralized model.

21.3.1.5 Section Summary

In sum, a fundamental feature of COVID-19 crisis management in Russia in the first year of the pandemic is strengthening of the role of federal subjects in decision-making. Decentralization occurred, in essence, not at the behest of the federal center through the transfer of powers, but as a result of the initiative taken by regions on measures to prevent the spread of COVID-19 on their territories. Federal legislation only consolidated the new powers.

The Mayor of Moscow became the decision-making leader during the pandemic. Not only regional, but also federal authorities followed Moscow's lead. The federal authorities lagged behind the regional authorities, at least in the first, most acute period of the pandemic.

In all federal subjects, a high alert regime was chosen; at the federal level, it was never introduced. In developing measures in federal subjects, their socioeconomic, geographical, cultural, ethnic, and other features were poorly taken into account. The lack of experience in combating the spread of such diseases, the need for a quick response, and the pursuit of not only the goals of the epidemiological well-being of the population, but also economic and political ones, were affecting.

At the end of the first year of the pandemic, the legal decisions by Russia's top political leadership on the procedure for actions on the part of public authorities to prevent threats to the sanitary and epidemiological well-being of the population indicated a return to centralized administration, which contrasts to the role that regions played in the early periods of the fight against COVID-19. Thus, the decentralization observed in Russia, at least in what concerns combating COVID-19, proved temporary but did not lay the foundations for a change (did not provoke a change) in the centralist model of governance.

21.3.2 What Is Happening in the Tertiary Sector of the Economy?

21.3.2.1 Dynamics of the Crisis for Russia as a Whole

The more complex nature and structural specifics of the economic crisis in 2020 compared to previous ones make it possible to analyze it, including through the dynamics of the tertiary sector. Managerial decisions to mitigate the consequences of the current crisis are complicated by the complex nature of the economic downturn, which has arisen as a result of two combined, mutually reinforcing groups of factors. Negative macroeconomic trends, which exacerbated problems in key sectors of material production, were aggravated by the crisis in consumer demand associated with both severe social restrictions during the pandemic and the continuing decline in household income (Zubarevich and Safronov 2020).

Traditionally, attention to the tertiary sector in Russia is associated with the strengthening of its role in employment and the significant contribution to forming regional budgets (Safronov and Zotova 2021). In 2019, the share of the tertiary sector in own tax revenues of regional and local budgets in Russia as a whole exceeded 60%. For most regions, the tertiary sector is the most important source of their own revenues. Its less "profitable" sectors providing nonmarket social services are distinguished by the number of jobs and volume of personal income tax (PIT; Fig. 21.1). "Advanced" sectors, primarily providing B2B services, are distinguished by a higher share of value added tax (VAT) going to the federal budget and profit tax, 85% of which is credited to the regional budget.

Although the shock of the social restrictions during the spring lockdown did in fact affect the entire tertiary sector to some extent, the 2020 wave of the crisis affected its subsectors to varying degrees: primarily, areas providing market services to legal entities and the population.

Most expert assessments of the scale of the recession in 2020 pertain either to the economy as a whole or to individual sectors better provided with quarterly or monthly Federal State Statistics Service (Rosstat) data, for example, trade or paid services (Monitoring... 2020). Possibilities for a more detailed analysis of the dynamics of certain types of economic activity (TEA) are provided by quarterly Federal Tax Service (FTS) statistics.²⁴ Based on tax revenue data for 2020, the branches of the tertiary sector can be divided into three groups.

1. The crisis had a relatively small impact on sectors of nonmarket services, which have a high share of personal profit tax in the structure of tax revenues: public administration, education, and healthcare (Fig. 21.2). After a slight decline in the

²⁴ A significant problem that arises in analyzing tax revenues by branches of material production and transport is tax refunds complexly "smeared" throughout the year, primarily VAT and excise. As a result, the amount of actually collected taxes decreases, which significantly reduces the accuracy of assessing economic activity for a given period. However, data for the tertiary sector, with the exception of transport, are least affected by this drawback.



Fig. 21.1 Assessment of structure of distribution of tax revenues from various types of economic activity by levels of Russian Federation budgetary system in 2019 (in %) *Source*: Compiled from Federal Tax Service (FTS) data: https://www.nalog.ru/m77/related_activity/statistics_and_analytics/forms/ (accessed January 15, 2021). Type of economic activity: *1*, all economic activities; *2*, mining and quarrying; *3*, manufacturing; *4*, construction; *5*, accommodation and food service activities; *6*, administrative and support service activities; *7*, information and communication; *8*, other service activities; *9*, water supply; sewerage, waste management, and remediation activities; *10*, electricity, gas, steam, and air conditioning supply; *11*, professional, scientific, and technical activities; *12*, real estate activities; *13*, financial and insurance activities; *14*, wholesale and retail trade; repair of motor vehicles and motorcycles; *15*, arts, entertainment, and recreation; *16*, education; *17*, healthcare and social work activities; *18*, public administration and defense; compulsory social security

second, most difficult quarter, they reached the level of the corresponding period of 2019. Emergency injections into healthcare and an increase in the volume of COVID-19 aid did not have much effect on tax revenues and apparently could not compensate even the decrease in volumes of other medical services, not to mention their quality and availability under COVID-19 restrictions.

- 2. Sectors that showed slight growth even after taking inflation into account were retail trade, which began to rapidly restructure as a result of development of the online segment; information services, the demand for which has grown significantly; and so-called administrative services, primarily at the expense of cleaning companies.
- 3. The strongest decline was observed in sectors that provide market services and have a higher share of profit tax in their deductions: most of them did not manage to restore at least precrisis level by the end of the third quarter. In addition to the hospitality, catering, culture, sports, and leisure establishments working for the end consumer, this group also includes the majority of sectors that provide services to legal entities. The prospects for the restoration of the latter are associated not only with the normalization of the social life of society but also with the general prospects for the resumption of economic growth. Wholesale



Fig. 21.2 Dynamics of tax revenues by type of economic activity for 2020 to the corresponding period of 2019 (in %)

Source: Compiled from Federal Tax Service data: https://www.nalog.ru/rn77/related_activity/ statistics_and_analytics/forms/ (accessed January 15, 2021). Type of economic activity: 1, all economic activities; 2, tertiary sector; 3, administrative and support service activities; 4, wholesale trade; 5, retail trade; 6, public administration and defense; compulsory social security; 7, information and communication; 8, water supply; sewerage, waste management, and remediation activities; 9, professional, scientific, and technical activities; 10, manufacturing; 11, healthcare and social work activities; 12, education; 13, construction; 14, electricity, gas, steam, and air conditioning supply; 15, other service activities; 16, agriculture, forestry and fishing; 17, financial and insurance activities; 18, arts, entertainment, and recreation; 19, real estate activities; 20, transportation and storage; 21, accommodation and food service activities; 22, other economic activities; 23, mining and quarrying

trade occupies an intermediate position, which after a strong recession managed to reach the level of the previous year in the third quarter.

The amount of time worked²⁵ is another indicator for assessing the scale of the crisis. Although it generally confirms the conclusions drawn on the basis of tax statistics, the disproportionately smaller reduction in volume of hours worked in the shock second quarter compared to tax deductions is noteworthy (Fig. 21.3). This may indirectly indicate a decrease in the volume of services provided per employee, that is, labor productivity. In the future, this may entail optimization of the number of employed, which will primarily affect the most advanced market services sectors (see below in Sect. 21.3.3).

21.3.2.2 The Tertiary Sector as a Regional Projection of the Crisis

Three factors had a decisive influence on the dynamics of the tertiary sector during the most acute phase of the crisis. First of all, this was the position of the main cities

²⁵The hours worked by the main personnel at medium and large enterprises are taken into account.



Fig. 21.3 Dynamics of number of man-hours worked by employees of medium and large enterprises and organizations in 2020 to corresponding period of 2019 (in %) *Source*: Compiled from EMISS: https://www.fedstat.ru/indicator/57851 (accessed January 15, 2021). Type of economic activity: *1*, all economic activities; *2*, information and communication; *3*, administrative and support service activities; *4*, professional, scientific, and technical activities; *5*, public administration and defense; compulsory social security; *6*, wholesale and retail trade; repair of motor vehicles and motorcycles; *7*, water supply; sewerage, waste management, and remediation activities; *8*, mining and quarrying; *9*, financial and insurance activities; *10*, electricity, gas, steam, and air conditioning supply; *11*, real estate activities; *12*, agriculture, forestry, and fishing; *13*, construction; *14*, healthcare and social work activities; *15*, transportation and storage; *16*, arts, entertainment, and recreation; *17*, education; *18*, manufacturing; *19*, other service activities; *20*, accommodation and food service activities

of a region in the hierarchy of central places, which determined the inclusiveness of a territory in interregional and international migrations. At the initial stage of the pandemic, this factor best explained the geographic pattern of the COVID-19 spread (Zemtsov and Baburin 2020). In addition, in regions located in the hinterlands of the country, for example, the Central Chernozem Economic District, restrictive measures were introduced later, which caused fewer economic losses (Fig. 21.4).

The significant influence of the sectoral structure of the economy on the decline in the tertiary sector in the shock second quarter of 2020 makes it possible to distinguish three groups of federal subjects. The tertiary sector proved more stable and adaptive in regions with large urban agglomerations and with centers with a developed and diversified services structure (Moscow, St. Petersburg, Novosibirsk and Voronezh oblasts). A strong decline was typical, first, of more industrialized regions, in which the decline in effective demand of the population was aggravated by the decline in volume of B2B services provided primarily to key, export-oriented specialization sectors, and second, of national republics with poorly diversified economies, where social restrictions led to a reduction in retail trade, the main market tertiary sector. In regions of Asian Russia and the European North with a



Fig. 21.4 Types of Russian regions by ratio of share of tertiary sector in tax revenues in 2019 and dynamics of tax revenues in second quarter of 2020 to the corresponding period of 2019 *Source*: Compiled from Federal Tax Service data: https://www.nalog.ru/rn77/related_activity/ statistics_and_analytics/forms/ (accessed January 15, 2021)

focal type of development, the settlement pattern factor had a negative impact on the situation. This led to an increased concentration of services in a limited number of large urban centers that were more epidemiologically vulnerable.

The consequences of the current socioeconomic crisis are also manifested in the negative dynamics of the number of small and medium-sized enterprises (SMEs)²⁶observed in Russia since 2018. State support measures for SMEs, which peaked in the second quarter of 2020, temporarily slowed this process. However, at the end of the year, the rate of decline of SMEs remained the same as in 2019 at a level of 6–7%. The most vulnerable groups of SMEs were those operating in the tertiary sector, which account for more than 70% of their total number. The higher the share of the tertiary sector in the sectoral structure, the higher the rate of decline in SMEs in a region (Fig. 21.5a). Meanwhile, against a general negative dynamics in some, primarily economically weak regions, there were examples of new, apparently fictitious SMEs registered with the expectation of expanding federal and regional support measures.

At first glance, under these conditions, the slight increase in the number of people employed in SMEs seems illogical (Fig. 21.5b). This is related to the specifics of

²⁶SMEs include legal entities with no more than 250 employees and sole proprietorships officially registered and listed in the SME registry.



Fig. 21.5 (a) Dynamics of number of SMEs (*y*-axis, %) as function of share of number of SMEs belonging to tertiary sector (*x*-axis, %), by regions. (b) Dynamics of number of subjects and people employed in SMEs, January 10, 2021, compared to January 10, 2020 (%, number of regions) *Source*: Compiled from FTS SME registry, https://rmsp.nalog.ru (accessed January 17, 2021). *1*, legal entities; 2, sole proprietorships; *3*, legal entities' employees; *4*, sole proprietorships' employees

state support, for the provision of which the authorities rely on official SME registration data. This prompts some sole proprietors waiting for continuation or expansion of grant subsidies to SMEs to indicate a larger number of employees in registry, some of whom were previously employed on informal terms.²⁷

21.3.2.3 Section Summary

In sum, the branches of the tertiary sector of the economy reacted differently to the new, more complex, COVID-19 crisis, in which negative macroeconomic trends were exacerbated by severe social restrictions. The greatest stability in these conditions was shown by nonmarket social and state services. Although the largest losses were typical of sectors providing market services to end users, most B2B services did not fully recover financially by the end of the year.

The features of the regional dynamics of the tertiary sector during the COVID-19 crisis were determined by four main factors:

- 1. The depth of the geographical position within the country, which affected the involvement of regional populations in return migrations.
- 2. The sequence (rate and timeliness) of introducing restrictive social measures.
- 3. The sectoral structure of a region's economy and the tertiary sector itself.

²⁷For example, a prerequisite for subsidizing wages in April–May 2020 at the minimum wage level was to maintain 90% of the number of employed in March. Repeated provision of such support in October–November was discussed in the Federation Council Committee on Economic Policy.

4. The settlement pattern, which influenced the degree of territorial concentration of the service sector in a region and its vulnerability under lockdown conditions.

The impact of the crisis on SMEs was temporarily mitigated by state support measures, which nevertheless failed to stabilize the negative dynamics of the number of SMEs. Against this background, business expectations of new steps of state support led to a volatile increase in the number of people employed in this sector.

21.3.3 The Labor Market in Pandemic Conditions

21.3.3.1 What Employment Numbers Reflect?

The coronavirus pandemic and the ensuing restrictive measures have had a strong impact on the state of the Russian labor market. According to official data, in April 2020, the share of employees of enterprises that suspended their activity was 28%. Some sectors, such as consumer services, tourism, and air travel, were almost completely closed. The economic downturn led to a drop in household income, demand, and other effects that indirectly influenced the labor market.

The labor market crisis in 2020 differed fundamentally from previous ones, triggered by a drop in production in the 1990s and the recessions of 2008–2009 and 2014–2015. First, the set of affected sectors was different and, as a consequence, so was the depth of manifestation in regions with different sectoral structures of the economy. Second, the institutional factor had a significant impact on the situation in regional labor markets. Whereas the previous crises occurred under unified administrative regulation mainly controlled by the federal center, in 2020 the center largely shifted responsibility for development of the situation in the economy to the regional authorities. The regions were given a kind of carte blanche to implement their own strategies to combat the pandemic and its consequences: in some regions, the authorities preferred to immediately introduce strict restrictive measures, but then scaled them back; in other regions, the local leadership significantly dragged its feet on the need for restrictions, and somewhere along the line, everything boiled down to formal recommendations, without rigid restrictions on business operations. Besides, not only the restrictive measures differed, but also the support measures.

Both factors—objective, related to the sectoral structure of the labor market, and subjective, due to decisions of regional and local authorities—led to a strongly diversified situation in regional labor markets and influenced the plight of millions of workers. This section will answer the following questions:

 How did the sectoral structure of regional labor markets affect their stability during the crisis: (a) which sectors and regions were most vulnerable to the crisis; (b) was the more diversified structure of the labor market a factor determining its stability? 2. How greatly did the institutional factor (local restrictive measures) influence the state of the labor market in regions for which the consequences of administrative decisions proved stronger than the objective factor of the sectoral structure?

The impact of the COVID-19 crisis on the labor market is one of the central areas of research on how countries have been economically impacted by the pandemic (Bartik et al. 2020; Bernstein et al. 2020; Bradley et al. 2020; Lewandowski 2020; Maurizio and Bertranou 2020). The International Labour Organization (ILO) in its regular surveys on the subject emphasizes a wide range of consequences from the crisis on the labor market both in different regions of the world and in various sectors of the economy (ILO Monitor 2020a, b). State regulation of the economy and the labor market in these conditions is also changing rapidly and dramatically (Chiuffo 2020; Hendrickx et al. 2020; Gaglione et al. 2020; Mangan 2020; Sagan and Schüller 2020).

The sectoral structure of employment receives particular attention as the most important factor determining the depth of the decline in the regional labor market. As a rule, it is assumed that regions with a more diversified structure are less sensitive to economic shocks, since the risk of suffering a shock is distributed among these sectors (Frenken et al. 2007) and, as a rule, this does not occur all at once. However, it is possible that the magnitude of the shock could be exacerbated if the affected sector has close ties with other sectors in the region and thus the feedbacks are localized (McCann and Ortega-Argilés 2013) and a multiplicative effect is observed.

To quantify the scale of restrictive measures, researchers use several methods: by tracking the changes in the purchasing activity of the population (as Sberbank, Russia's largest bank, does in its Sberindex²⁸), in the intensity of movement of people (as it is done by Apple,²⁹ Google,³⁰ and Yandex, Russia's largest IT corporation³¹), and by investigating the legislative regulation of the economy in each region (Differentsiatsiya...2020). Some studies use composite indices but they are more applicable at the national level (Hale et al. 2020, 2021).

21.3.3.2 Impact of the Sectoral Structure on Regional Labor Markets During the Pandemic

It is not yet possible to fully assess the consequences of the pandemic for individual sectors of the Russian labor market in 2020, since there are no official data on employment in small and medium-sized businesses and sole proprietorships. The available estimates for large enterprises and organizations (about half of the employed, taking into account the vast informal employment sector), most likely,

²⁸https://sberindex.ru/ru/dashboards/indeks-potrebitelskoi-aktivnosti

²⁹https://covid19.apple.com/mobility

³⁰https://www.google.com/covid19/mobility/

³¹https://yandex.ru/company/researches/2020/podomam

characterize the situation in the most stable segment of the labor market, but even they indicate serious sectoral differentiation (Fig. 21.6).

The 2020 crisis was generally accompanied by the recurrence of an adaptation scenario typical (Gimpelson et al. 2017) for the Russian labor market: under the decline in economic activity, there was no corresponding reduction in the number of employed—employers adapted to the crisis by hiring fewer new workers, furloughing or putting full-time employees on part-time, and reducing wages, avoiding massive layoffs (see Fig. 21.6). The total number of hours worked by employees at large enterprises and organizations in the second quarter of 2020 decreased by 4%. The hardest hit were the consumer and personal services sectors, the most affected by restrictive measures: -33.2% for hotels/restaurants; -12.7 and -11.4% for other service activities and recreation/entertainment respectively. The manufacturing industry (-7.4%), education (-7%), the transport sector (-5.8%), and healthcare (-5.2%) also dropped quite strongly. The national lockdown had a much weaker effect on financial and insurance activity (-1.9%), agriculture and forestry (-1.9%), trade (-1.2%), and mining (-0.7%). Some sectors, primarily the information and communications sector (+8.4%), demonstrated steady growth.



Fig. 21.6 Sectoral dynamics in the labor market of Russia in the first-third quarters (Q1, Q2, Q3) of 2020 to corresponding period of 2019

Source: Rosstat data: https://www.fedstat.ru/indicator/57851

To assess the vulnerability of regions as a function of the sectoral structure of their labor markets, the index of the expected region's labor market dynamics (IELMD) was calculated (Eq. 21.1):

$$\text{IELMD} = \sum_{i} S_i * D_i, \qquad (21.1)$$

where S_i is the share of the sector *i* in the regional labor market in the corresponding period of 2019; D_i is the dynamics of sector *i* in the corresponding period of 2020 for Russia as a whole; and $\sum_i S_i * D_i$ is the total for all sectors in a region. The higher the share of the most affected sectors, the more vulnerable the region.

According to our estimates, the regions most vulnerable to the crisis included the Republic of Crimea, the Volga and Caucasus republics, and the relatively poor regions of Central Russia with a small share of industry and qualified services. Moscow as well as the resource regions of Siberia and the Far East were less vulnerable to the crisis due to the sectoral structure of the labor market. In general, the variation among regions in the expected downturn in the labor market (in terms of hours worked) in the most difficult, second quarter of 2020 ranged from -4.7% (Chelyabinsk oblast) to -2.4% (Magadan oblast).

However, the observed dynamics of regional labor markets during the pandemic only partially coincided with the expected ones (Fig. 21.7): Spearman's correlation coefficient between the expected and observed dynamics in the second quarter of 2020 was 0.4, *p*-value <0.01. The regions differed in the dynamics of hours worked much stronger than expected. In the second quarter, Moscow, Crimea, and Siberian and the Far Eastern regions performed much better than expected, while the republics of the Caucasus, the Volga Region, and regions of Central Russia faired much worse. Notable examples were Sakhalin, Amur, Murmansk, and Magadan oblasts, Yamalo-Nenets Autonomous Okrug, and several other regions, which, against the national decline, showed an increase in hours worked, while Ivanovo, Smolensk, and Bryansk oblasts as well as the republics of Sakha (Yakutia), Adygea, and others, on the contrary, performed significantly worse than expected.

In the third quarter (see Fig. 21.7), the list of the leaders barely changes: Moscow, the Yamalo-Nenets Autonomous Okrug, Amur, Magadan, and Sakhalin oblasts, and so on. Tula, Tver, and Rostov oblasts were true to expectations. Yakutia was still worse than expected; in addition, other eastern regions noticeably sagged: the Khanty-Mansi and Chukotka autonomous okrugs; Khabarovsk, Zabaykalsky, and Primorsky krais; and the Komi Republic in northern European Russia.

One reason why the observed labor market dynamics showed much wider variation than expected may be hidden in the multiplicative effects of the decline in the labor market and degree of its diversification (Fig. 21.8). In the most economically developed regions with a diversified sectoral structure of the labor market, the crisis-related contraction in the affected (service) sectors had a weak inhibitory multiplicative effect on other sectors, primarily material production: contraction of the labor market in some sectors was compensated by expansion in others. In regions with less sectoral diversification of the labor market, the situation



Fig. 21.7 Differences between the expected (IELMD, open circles) and observed (closed circles) labor market dynamics by Russian regions in the second (Q2) and third (Q3) quarters of 2020 *Note*: Obl. stands for oblast; R. is republic/republic of; AO is autonomous okrug; A. Obl. is autonomous oblast

could have developed according to two scenarios: (1) regions-exporters of mineral resources as a whole were less affected by the crisis; in addition, the first wave of the disease reached the East with a lag, hence, for some of them, the good dynamics in the second quarter was followed by a significant subsidence in the third quarter; (2) the relatively poor regions of the Caucasus, the Volga Region, and the Non-Chernozem Region, with a low level of diversification of the labor market and a small share of sectors and skilled services, suffered to a much greater extent, since contraction of the labor market in vulnerable sectors was not stabilized by the situation in underdeveloped stable sectors.

Thus, the sectoral features of the 2020 crisis, including small intersectoral multiplicative effects, led to a more stable situation on the labor market in richer regions with a low share of vulnerable sectors and, in general, with a more diversified sectoral structure of the labor market. However, this does not explain why some regions acutely changed their position from the second to the third quarter, nor why some on the whole demonstrated a behavior contrary to sectoral predisposition (see



Fig. 21.8 Drop-in hours worked in Russian regions under the pandemic crises in the second quarter (Q2) of 2020 compared to the corresponding period of 2019, depending on the level of sectoral diversification of labor market

Note: Sectoral diversification estimate is based on Herfindahl–Hirschman index (HHI) for the sectoral structure of hours worked at end of the second quarter of 2019. In accordance with the obtained HHI values, the regions were divided into four equal groups. Within the groups, the observations were weighted by absolute values of hours worked

Fig. 21.7). The index of the expected labor market dynamics shows how the labor market of a region should behave if all its sectors developed in accordance with all-Russian trends, or, in other words, it shows the expected amount of time worked in each specific region if local conditions, including sectoral regulation measures, did not differ from the national average. However, the situation with the labor market changed dramatically when regional authorities used different regulatory mechanisms.

21.3.3.3 Institutional Factor

The impact of administrative decisions on labor markets can be viewed from two viewpoints: as the expansion of restrictive measures for the functioning of certain sectors of the economy and as implementation of compensatory support measures for the affected categories of employers and workers.

The implementation of *restrictive* measures in Russia began at the very beginning of March 2020 on the initiative of individual regions. Against the common background, Moscow and Moscow oblast stood out: they introduced a high alert regime (see above in Sect. 21.3.1) and began to gradually limit mass events, the operations of eating establishments, cinemas, beauty businesses, and so on. Somewhat later, similar measures were taken in most Russian regions, but until the end of March,

they were desultory. Russia introduced an official federal lockdown that ran from March 30^{32} to May 8, 2020, and provided for the introduction of nonworking days for all enterprises, with the exception of an extensive list of so-called continuously operating businesses essential to the population and the economy (medical, trade, transport, and so on), as well as all sectors that regions themselves deemed necessary to operate. As a result, the leadership of Russian regions faced a choice: on the one hand, no one wanted the regional economies to collapse, and on the other, the heads of regions, not fully understanding the risks and patterns of the spread of infection, were forced to overprotect themselves, "closing" their regions or parts thereof to the maximum extent. In this situation marked by intuitive behavior, gravitation to "opinion leaders" (primarily, the mayor of Moscow, governors of Moscow oblast, St. Petersburg, and other large regions), and a lack of information, Russian regions saw the development of a diverse and often inexplicable system of restrictive measures. Available research indicates that the severity of restrictive measures was not related to the current epidemiological situation (Differentsiatsiya... 2020) nor with the current state of affairs in the economy (Zhestkost'... 2020).

The severity of restrictive measures became the main factor that governed the differences between regions during contraction of the labor market in the hotel and restaurant sector (Fig. 21.9). In many respects, the mean Russian one-third reduction in hours worked in the sector in the second quarter of 2020 came from only a few large regions: Moscow and the Moscow oblast, St. Petersburg, and the Republic of Tatarstan; in most regions, the severity of restrictions was less. Since summer 2020, as the morbidity rate decreased, restrictive measures in regional economies were gradually lifted, and by the end of 2020, they exerted a significant influence only for cultural events, partly in the food services sector.

State *support* measures for the labor market during the pandemic were carried out at the federal and regional levels, both directly and indirectly. The most ambitious was federal³³ indirect support via targeted social payments to citizens (primarily families with minors) to maintain demand (in total for 2020, RUB 769.2 billion [bln]), as well as financial support measures for small businesses and sole proprietor-

³²Decree of the President of the Russian Federation of March 25, 2020, no. 206, On Declaration of Nonworking Days in the Russian Federation; Decree of the President of the Russian Federation of April 2, 2020, no. 239, On Measures to Ensure the Sanitary and Epidemiological Well-being of the Population in the Russian Federation in Relation to the Spread of New Coronavirus Infection (COVID-19), and Decree of the President of the Russian Federation of April 28, 2020, no. 294, On the Extension of Measures to Ensure the Sanitary and Epidemiological Well-being of the Population in the Russian Federation in Relation to the Spread of New Coronavirus Infection (COVID-19), and Decree of the President of the Russian Federation of April 28, 2020, no. 294, On the Extension of Measures to Ensure the Sanitary and Epidemiological Well-being of the Population in the Russian Federation in Relation to the Spread of New Coronavirus Infection (COVID-19).

³³A generalized summary of federal support measures for 2020 and plans for 2021 is contained in the National Action Plan to Ensure the Restoration of Employment and Household Incomes, Economic Growth, and Long-Term Structural Changes in the Economy (approved by the Government of the Russian Federation on September 23, 2020, Protocol no. 36, section VII) (No. Π13-60855 dated October 2, 2020).



Fig. 21.9 Relationship between severity of restrictive measures (measured by purchasing activity) and deviation of the observed changes in hours worked in hotel business and food enterprises in Russian regions from national average in the second quarter of 2020

Note: Trend line is weighted by absolute values of hours worked. Obl. stands for oblast; R. is republic of

ships operating in affected sectors³⁴ (RUB 376.6 bln). Lastly, RUB 149 bln were allocated for direct support of citizens who lost their jobs as a result of the crisis, most of which was spent on increasing the minimum and maximum amount of unemployment benefits, as well as increasing their duration. In addition to the increase in funding, introduction of a remote procedure made it easier to file for benefits. Note that the federal program to support the economy and labor market had no territorial priorities for any regions.

Whereas regions on their own determined the depth of the imposed restrictions and this did not require significant operating costs, the set and scale of compensation measures that they could afford directly depended on their financial capabilities. Most assistance in regions was provided through the breaks in regional tax payments. That meant that a region provided assistance to its economy at the expense of its own shortfall in revenues, which were subsequently partially compensated from the federal budget via intergovernmental transfers (Zubarevich and Safronov 2020). In general, support of the labor market in regions was more likely carried out indirectly: by reducing the tax burden for SMEs in the affected sectors, including among the criteria for receiving assistance obligations to maintain employment at the precrisis (usually 90%) level, and so on. There was also direct support for the

³⁴According to a special federal list approved by the RF Government Decree of April 3, 2020, no. 434, On Approval of the List of Sectors of the Russian Economy Most Affected by Exacerbation of the Situation as a Result of the Spreading of New Coronavirus Infection (with amendments and additions).

unemployed, as in the case of federal initiatives, but it was not a priority in regional anticrisis policy. Thus, it is possible to say that implementation of federal and regional restoration programs should have helped to implement the adaptation scenario in the labor market not due to massive layoffs of workers and their redistribution between spheres of employment, which could have been expected in analogy with foreign countries (primarily the United States and some European countries), but through part-time employment mechanisms and compensation from the state for part of an employer's costs for paying wages. This support scheme, similar to that during the previous acute labor market crisis of 2008–2009, in general has acquitted itself well.

21.3.3.4 Section Summary

In sum, the sectoral structure of the economy has significantly influenced the state of labor markets in federal subjects, since the set of affected sectors and their role for Russian regions were very different.

The nature of the crisis and the small multiplicative effect between sectors made diversified labor markets more resilient than monopolized ones, dominated by more vulnerable sectors.

The institutional factor of regional policy in restrictive measures played an important role in differentiating the situation on labor markets; the degree of administrative decentralization increased somewhat in the third quarter more than in the second.

The combination of sectoral specialization and the severity of restrictive measures determined general trajectories of labor markets in Russian regions during the pandemic.

21.3.4 Regional and Municipal Response in St. Petersburg

21.3.4.1 Assessment of the Situation with COVID-19

Russian doctors recognize four main parameters for assessing the situation with COVID-19: morbidity, prevalence, case fatality rate, and mortality; however, they note the lack of uniform approaches to accounting for morbidity, differences in terminology and assessment methods in Russia and foreign countries (Drapkina et al. 2020). Economists, who have attempted a more accurate estimate of mortality from coronavirus in the Russian regions compared to the official estimates, point to the comparison of data from different sources as one of the main research methods (Lifshits 2020). Guided by this principle, we limited our assessment to morbidity and mortality criteria, since data for each of them are available from at least two different sources. For comparison, we supplemented them with available data on hospitalization of patients in coronavirus facilities. Mortality rates are also considered from the

standpoint of excess mortality, which we calculated as the difference between the mortality rate from all causes for January–November 2020 and the average mortality rate for the corresponding months of 2011–2019. The informative value of the excess mortality rate is recognized by both official and independent researchers, but it is assessed differently: whereas O.M. Drapkina et al. (2020, p. 308) indicate that in order to assess coronavirus' contribution to excess mortality "there is difficult analytical work in store for the future," independent demographer A.I. Raksha calls it "the most important indicator of the overall impact of the virus on humans."³⁵

In analogy with the methodology of Zubarevich and Safronov (2020), we assessed the economic situation with the COVID-19 crisis based on monthly Rosstat data on the dynamics of socioeconomic indicators reflecting the crisis phenomena: industrial production, retail trade, paid services, level of overall unemployment (according to the ILO methodology) and registered unemployment, as well as FTS data on receipt of budget revenues and collection of two taxes—profits of organizations and income of physical persons. It should be noted that in this section, St. Petersburg is considered as one of the regions whose economies suffered the most from strict quarantine measures.

St. Petersburg, Russia's second largest city, has the highest COVID-19 death rate by official data (1.44 per 1000 inhabitants; Moscow is in second place with 0.89).³⁶ However, even these data may be underestimated: none of the official sources provides sufficiently complete and detailed statistics, and the data of various departments contradict each other. According to the official Internet resource stopkoronavirus.rf, as of January 1, 2021, 7769 people died from COVID-19 in St. Petersburg.³⁷ According to Rosstat reports, COVID-19 became the main cause of death for 9900 St. Petersburg residents for the period from April to December 2020 along.³⁸ According to the Government of St. Petersburg, mortality from all causes for 2020 was 18.6% higher than the average for the previous 9 years; excess mortality was more than 11,400 people, that is, +2.12 per 1000 inhabitants (Fig. 21.10). St. Petersburg also numbers among the top ten regions with the coronavirus highest mortality rate: 31.6 deaths per 1000 cases.³⁹

The data on the total number of cases are also inconsistent. According to the official Internet resource stopkoronavirus.rf, as of January 1, 2021, 245,800 cases were detected in the city (45.6 cases per 1000 inhabitants, seventh place in Russia).

³⁵"This will be a very sad year." The demographer calculated the real mortality rates from coronavirus in Russia. https://www.fontanka.ru/2020/11/15/69547148/ (accessed January 16, 2021).

³⁶Calculated by the author based on data from the Official Internet Resource for Informing the Population on the Coronavirus (COVID-19). https://stopkoronavirus.rf/information (accessed January 7, 2021). Hereinafter, we used data for the periods available at the time of the study. ³⁷https://stopkoronavirus.rf/information (accessed January 7, 2021).

³⁸Calculated by the author based on Rosstat data. https://rosstat.gov.ru/storage/mediabank/ LmfEjEzy/edn10-2020.htm (accessed March 15, 2021).

³⁹Calculated by the author based on: https://stopkoronavirus.rf/information (accessed January 7, 2021).



Fig. 21.10 Total mortality in St. Petersburg for calendar year (2011–2020), people *Source*: Rosstat: https://rosstat.gov.ru/storage/mediabank/rKYssRaN/edn01-2021.htm (accessed April 18, 2021)

However, these data are questionable given the official information on hospitalization of infected. According to data published by the Government of St. Petersburg, 60,500 adult patients with pneumonia + COVID-19 were hospitalized from September 21 to December 28, 2020, alone.⁴⁰ There are no publicly available data on hospitalizations for the previous period; however, weekly data exist on the number of occupied beds in coronavirus facilities (232,300 beds per week on an accrual basis from 18 to 52 calendar weeks). Comparison of daily data on adult hospitalizations for the period from September 21 to December 27, 2020 and weekly data on the number of occupied beds for 39–52 calendar weeks allows us to calculate the weekly ratio of occupied beds to new hospitalizations: 0.55. Thus, the total number of hospitalizations of adult patients alone for the period from April 27 to the end of 2020 can be estimated at 130,000 cases.

The announcement of the official publication of the city government, citing the vice-governor of St. Petersburg, that "patients who test positive for COVID-19 and 40% lung damage are being admitted to the hospital"⁴¹ casts doubt on the completeness of the published statistics of detected cases. Conversely, trust in the official figure would force us to admit the extremely difficult nature of the course of the

⁴⁰Calculated by the author based on Information for Countering the COVID-19 Epidemic in St. Petersburg as of December 28, 2020, including the results of the 52nd week. https://www.gov.spb.ru/press/government/204362/ (accessed January 7, 2021).

⁴¹Petersburg stated the conditions for compulsory hospitalization of patients with coronavirus, *Petersburg Journal*, 2020, December 16. https://spbdnevnik.ru/news/2020-12-16/v-peterburge-nazvali-usloviya-dlya-obyazatelnoy-gospitalizatsii-bolnyh-koronavirusom (accessed December 20, 2020).

pandemic in St. Petersburg: more than 50% of cases bear the disease with severe injuries and hospitalization, which should indicate the extreme ineffectiveness of quarantine measures and dysfunction of the city health system.

There is no doubt that the incompleteness and inconsistency of the official data have a disorienting effect on society and the adoption of administrative decisions.

21.3.4.2 Dynamics of the Crisis Throughout the Year

The first case of infection was recorded in St. Petersburg on March 5, 2020;⁴² the WHO announced the onset of the pandemic from March 12;⁴³ already on March 13, the Government of St. Petersburg introduced a high alert regime for administrative bodies and emergency services, which is in effect to this day.⁴⁴ From March 30 to May 8 in St. Petersburg, as in all of Russia, a nonworking day regime was introduced. Later, the lockdown was not repeated; however, the authorities introduced restrictions for certain types of enterprises and organizations (restaurants, theatres, schools, and so on).

Let us trace the dynamics of the development of the COVID-19 crisis by comparing the published data on morbidity, hospitalization, coronavirus mortality, and excess mortality from all causes, which we calculated as the difference between the mortality rate for each month of 2020 and the average mortality rate for the corresponding months in 2011–2019 (Fig. 21.11).

First, the significant gap between the morbidity curve and the other three indicators is noteworthy. According to official data, the monthly number of cases is relatively stable (with a slight surge in May) and demonstrates a galloping increase (19.6 times) only in November–December. Other indicators reveal a different crisis dynamics: two uniform waves, with the most contrasting one expressed by the excess mortality curve. In January–March 2020, the total mortality rate in St. Petersburg was lower than the long-term values. Excess mortality was first recorded in April (1.03 vs. the average value for April 2011–2019) and peaked in June (1.49), then, after a decline (1.08 in August), it spiked again (1.39 in November). The data on the number of occupied beds show two uniform waves from April to July and from October to the end of the year, while the mortality data record an earlier onset of the second wave in September. The latter underlines the flaws in the morbidity statistics: the increase in mortality should lag behind growth in the number of infections.

⁴²The first case of coronavirus was recorded in St. Petersburg. https://www.rbc.ru/spb_sz/0 5/03/2020/5e60c5df9a79472cf2d08846 (accessed December 20, 2020).

⁴³The WHO has announced the onset of the COVID-19 pandemic. https://www.euro.who.int/ru/ health-topics/health-emergencies/coronavirus-COVID-19/news/news/2020/3/who-announces-COVID-19-outbreak-a-pandemic (accessed December 20, 2020).

⁴⁴On Measures to Counter the Spread of New Coronavirus Infection (COVID-19) in St. Petersburg: Resolution of the Government of St. Petersburg, no. 121 of March 13, 2020. https://www.gov.spb.

ru/law/d?nd=564437085 (accessed December 20, 2020).



Fig. 21.11 Dynamics of COVID-19 crisis in St. Petersburg in 2020 (values of indicators for April 2020 are taken as reference values equal to 1)

Thus, the pandemic manifested itself in St. Petersburg in April 2020 and has a pronounced wave dynamics with two peaks, one of which was recorded in May–June, and the second has continued since October 2020.

How has the COVID-19 crisis affected the social and economic situation in St. Petersburg? Figure 21.12 shows the dynamics of available indicators for the period since the beginning of 2020. The onset of the pandemic led to an almost immediate downturn in the economy, as early as April 2020. The deepest drop was observed in paid services to the population (-40 in April, averaging -18.3%) and receipt of local budget revenues (-21% in April, averaging -10%). The unemployment rate rose three times in April vs. March; at its peak in August, 5.6 times. It is clear that such rapid growth was associated with an increase in unemployment benefits to the minimum subsistence level; however, the amount of benefits (USD 165 per month) demonstrates the level of financial difficulties that citizens faced when forced to apply for benefits. The crisis did not affect federal budget revenues (in contrast to corporate profits tax).

The dynamics of the socioeconomic crisis does not replicate the two-wave dynamics of the COVID-19 crisis, demonstrating the persistent nature of the down-turn caused by the onset of the pandemic; it is weakly associated with a temporary improvement in the situation with COVID-19 at the end of summer.

21.3.4.3 Reaction of City Authorities: Reflection in Budgetary Policy

We have examined the authorities' reaction to the outbreak of the crisis in terms of budgetary policy. St. Petersburg is a city of federal significance, that is, a federal subject with its own government bodies (parliament and government) and budget. Local self-governance is organized in 111 intracity territories, which have their own municipal bodies (councils and administrations) and local budgets.





Source: Unemployment according to Rosstat data (Socioeconomic situation in St. Petersburg in January–December 2020. SPb.: Petrostat, 2021. https://petrostat.gks.ru/storage/mediabank/ JXDSgd8p/11001021_122020_SPB.pdf (accessed April 20, 2021).); receipt of revenues and profit The St. Petersburg budget for 2020 was adopted by the city parliament on November 27, 2019 (i.e., even before the first reports of the COVID-19 outbreak in Wuhan), with revenues of RUB 684.4 bln^{45} (USD 10.5 bln^{46}), expenditures of RUB 727.5 bln (USD 11.4 bln), and a deficit of 7.2%.

Expenditures exceeded those of the previous year by 9.1% in rubles. The priorities of St. Petersburg's budgetary policy were demonstrated by the fact that growth in expenditures above the inflation rate was assumed in only 4 out of 14 budget items: debt servicing (+53.9% by 2019), public administration (+13%), physical fitness and sports (+10.1%), and, to some extent, the national economy (+6.1%). Although spending on healthcare and social policy accounted for significant shares of the city budget (12.4% and 17.8%, respectively), in absolute terms, compared to 2019, healthcare funding increased below the inflation rate (+1.1% with an inflation forecast of 5% per year⁴⁷), while spending on social policy decreased (-5.6%). Obviously, this approach was designed for the inertial scenario of the sector's development, but not for the subsequent severe crisis.

In the Russian healthcare model, direct provision of medical care is financed through an off-budget compulsory health insurance fund (CHI fund), the budget of which is also approved by the regional parliament. The CHI fund budget for 2020 was approved without a deficit in the amount of RUB 119 bln (USD 1.86 bln) with growth compared to 2019 at the inflation rate (+5.3%).

During the year, the city parliament twice (June 10 and December 9) made changes to the city budget and once (December 9) to the budget of the CHI fund. In addition, legislation allows the executive branch to redistribute allocations within the budget in some cases without a parliamentary decision.

Fig. 21.12 (continued) taxes on organizations and income of individuals according to FTS data (Calculated by author as ratio of monthly data on tax receipts in St. Petersburg for January–December 2020 to similar data for corresponding months of 2019 (cumulative total) according to reports on accrual and receipt of taxes, fees, insurance premiums, and other mandatory payments to Russian Federation budget system. https://www.nalog.ru/m78/related_activities/statistics_and_analytics/forms/ (accessed April 20, 2021).)

⁴⁵Hereinafter, budgetary reporting based on Federal Treasury data is used: Consolidated budget of the Russian Federation and budgets of state extra-budgetary funds. https://roskazna.gov.ru/ ispolnenie-byudzhetov/konsolidirovannyj-byudzhet (accessed December 20, 2020).

⁴⁶RUB 63.97 per dollar at the exchange rate of the Central Bank of the Russian Federation as of November 27, 2019; the amplitude of exchange rate fluctuations in 2020 was about 33% (from RUB 60.95 on January 14, 2020, to RUB 80.88 on March 24, 2020). As of December 31, 2020, the exchange rate was fixed at RUB 73.88 to the dollar.

⁴⁷On the forecast of socioeconomic development of St. Petersburg for the period up to 2035: Resolution of the Government of St. Petersburg, no. 90, of February 14, 2017 (amended as of January 20, 2020). http://docs.cntd.ru/document/456043899 (accessed December 20, 2020).

Taking into account the dual nature of healthcare funding, we consider the city's budgetary policy in the total expenditures of the city budget and CHI fund (hereinafter referred to as St. Petersburg expenditures). Since in the budget reporting, the monies of the fund are spent on two items—healthcare (medical care proper) and national issues (fund management)—in further calculations, the allocations of the CHI fund pertain to the corresponding items of expenditures.

Figure 21.13 shows the dynamics of changes in the approved expenditures of St. Petersburg during 2020 vs. the corresponding figures for the 2019 and 2021 budgets. The pandemic has caused significant adjustments to the planned costs of St. Petersburg, the most significant increase in healthcare costs (+13.6% December to January 2020). The first reallocations of funds in favor of healthcare were made back in March, and the budget spending dynamics reflects the active position of the city authorities, which managed to increase the bed capacity of hospitals and carried out such major events as the equipment of the hospital at the Lenexpo exhibition complex (opened on April 27) and construction of a new transformer ward of the hospital for war veterans (begun on July 9 and opened on December 24). The growth in appropriations was achieved mainly due to a reduction in expenditures on housing and communal services (-26.7%) and the national economy (-17.6%). The latter reduced the possibility of supporting the city's economy affected by the pandemic.

Overall, the budgetary response lags behind the dynamics of the crisis. The most significant changes to the budget were made in June (the peak month of the first wave) and December (at the end of the fiscal year, when the deadlines for fulfilling budget allocations are limited).



Fig. 21.13 Dynamics of changes in approved expenditures of St. Petersburg at end of 2019, during 2020, and according to plan for 2021 (RUB bln)

Source: Federal Treasury data: https://roskazna.gov.ru/ispolnenie-byudzhetov/konsolidirovannyj-byudzhet (accessed April 20, 2021)

Figure 21.14 compares St. Petersburg's expenditures in 2020 with 2019. In the extreme situation, the authorities did not evince due budgetary discipline: St. Petersburg's expenditures were carried out more poorly than the schedule of the previous year (average monthly indicator, 0.32%); the worst rates (-1.3%) were recorded in April and May, that is, at the peak of the crisis, when administrative clarity was most needed. Healthcare expenditures were carried out slightly in excess of the previous year's schedule (+0.77\%), but more than 20% of annual expenditures were in the last month of the year. Expenditures on social policy were carried out 3.7% worse, and for support of local budgets, 10.5% worse than the schedule for 2019. We regard the significant lag in expenditures on general government issues (-9.9%) as reasonable retention of reserves for reallocating funds for other items, which, however, were not done in time.

21.3.4.4 Reaction of Municipal Authorities

St. Petersburg is characterized by significantly imbalanced city governance: the overwhelming majority of resources and powers are concentrated at the city level; at the municipal level, only 1.55% of the consolidated budget is spent.⁴⁸ The powers of municipalities are limited to about 50 issues, but some are important in the crisis





Source: Federal Treasury data: https://roskazna.gov.ru/ispolnenie-byudzhetov/konsolidirovannyj-byudzhet (accessed April 20, 2021)

⁴⁸Ratio of Planned Expenditures as of January 1, 2021.

under consideration, such as informing and educating people on how to protect themselves in an emergency, temporary employment and organization of public works, assistance for development of small business, the media, and certain types of social assistance. The following strengths should be acknowledged: the wide network of municipal institutions in the city, ties with local associations of citizens (public organizations for veterans, disabled people, socially vulnerable citizens, homeowners associations, residents' councils, and so on), as well as the potential of trust in local politicians elected to municipal councils shortly before the onset of the crisis (in September 2019).

One can logically assume that in a crisis, municipalities could have taken on grassroots work with the community: organizing volunteer and neighborhood assistance for the elderly, informing about the rules of behavior and the current situation in the district (e.g., the operating hours of clinics, pharmacies, shops, other local facilities in lockdown conditions), targeted social assistance, emergency public works for the unemployed, support for local small businesses (the taxes of which form the basis of local budget revenues); they could also have used material civil defense reserves (primarily in the initial period of the pandemic, when there was an acute shortage of funds for personal protection). Solving these issues at the municipal level would have had a beneficial effect on the state of society and relieve the city authorities, allowing them to concentrate their efforts on rolling out the healthcare system. In addition, implementation of municipal potential is ensured by a protocol for adjusting local budgets that is more mobile compared to that of a city.

What happened in practice? The St. Petersburg Finance Committee collects monthly budget reports from all 111 municipalities;⁴⁹ however, it refused to provide this information for this study,⁵⁰ which once again confirms the closed nature of the policy of the city authorities and deprives us of the opportunity to trace territorial differences in the administrative practices of municipalities. Therefore, hereinafter, we operate with aggregate local budget indicators recorded by Federal Treasury reporting.⁵¹

The aggregate local budget for 2020 was initially approved with revenues of RUB 12.8 bln (USD 200 million), expenditures of 13.4 RUB bln (USD 209 million), a deficit of 4.2%. Compared to 2019, expenditures decreased by 4.7%; during the year the reduction continued, reaching in December -8.3% vs. the previous year.

⁴⁹On the Terms of Submission of Monthly and Quarterly Consolidated Budgetary and Financial Statements: Order of the St. Petersburg Finance Committee, no. 97-r of December 17, 2019. http://docs.cntd.ru/document/564066492 (accessed December 20, 2020).

⁵⁰Letter of the St. Petersburg Finance Committee, ref. no. 03-39-27503/20-0-1 of December 11, 2020.

⁵¹Consolidated budget of the Russian Federation and budgets of state extra-budgetary funds. https://roskazna.gov.ru/ispolnenie-byudzhetov/konsolidirovannyj-byudzhet (accessed April 20, 2021).



Fig. 21.15 Dynamics of changes in approved expenditures of local budgets of St. Petersburg intracity municipalities at end of 2019, during 2020, and according to plan for 2021 (RUB bln) *Source*: Federal Treasury data: https://roskazna.gov.ru/ispolnenie-byudzhetov/konsolidirovannyj-byudzhet (accessed April 20, 2021)

The dynamics of the approved expenditures of local budgets at the end of 2019 and during 2020 is shown in Fig. 21.15.⁵² The budgetary policy of municipalities demonstrates complete indifference to the crisis. The general reduction in budget expenditures did not prevent an increase in expenditures for fundamental maintenance (+3.5% December to January 2020) and debt servicing (+11.4%). However, expenditures for the items related to overcoming the pandemic showed negative dynamics. Thus, spending on national security and law enforcement, including funding for civil defense and emergency regime, and made it impossible to use prepared reserves. Expenditures on the national economy decreased, including employment and support for small businesses (-7.7%) and the media (-11.4%), while spending on social policy insignificantly increased (+1.1%). The straight lines in the graph are similar to readings on a vitals monitor indicating death of a patient.

The situation is worsened by the strictly negative dynamics of the carrying out of budget allocations (Fig. 21.16). On average, the aggregate local budget was carried out 5% worse than the schedule of the previous year, and it decreased from month to month. This poor execution of expenditures on education (on average -23.4% than the schedule of the previous year), environmental protection (-19.1%), culture (-18.7%), and sports (-13.7%), seemingly for natural reasons, including the

⁵²Local budget expenditures were approved based on a unified classification, from which, due to lack of authority, the items "National Defense," "Healthcare," and "Interbudgetary Transfers" were excluded.



Fig. 21.16 Dynamics of execution of aggregate local budget of St. Petersburg municipalities in 2020 (in %, compared to the corresponding month of 2019)

Source: Federal Treasury data: https://roskazna.gov.ru/ispolnenie-byudzhetov/konsolidirovannyj-byudzhet (accessed April 20, 2021)

introduced regulations and restrictions on activity, created opportunities for the reallocation of funds to combat the crisis. But no—even the approved budget allocations were not fulfilled: the national economy, -5.8%; national security and law enforcement, -9.2%; and mass media, -5.7%. An insignificant increase in performance is seen only in fundamental maintenance (+0.4%) and social policy expenditures (+1.1%), and a significant increase is observed in municipal debt servicing (+38.6%, the only upwardly trending curve on the graph).

21.3.4.5 Section Summary

Officially published statistics on the indicators of the course of the pandemic in St. Petersburg were incomplete, covering different periods and containing obvious contradictions, which had a disorienting effect on society and administrative decision-making. A comparative analysis of the data leads to a conclusion about a distinctly pronounced two-wave dynamics of the COVID-19 crisis with peaks in May–June and since October 2020. The socioeconomic crisis did not replicate the two-wave dynamics: a stable negative trend has continued since April and was weakly associated with a temporary improvement in the situation with COVID-19 at the end of summer.

The pandemic has caused significant adjustments to the previously adopted inertial scenario of the city's budgetary policy. Budget reporting records the facts of administrative impact on the situation, expressed, first of all, in the increase in healthcare costs during the year. However, in general, the reaction of the city authorities lagged behind the dynamics of the crisis. In the extreme situation, the St. Petersburg government did not evince proper discipline: budget expenditures were carried out worse than the previous year's schedule, which led to a natural result—a reduction in approved allocations for healthcare at the end of the year.

The budgetary policy of municipalities demonstrated complete indifference to the crisis: budget allocations duplicated the expenditures of the previous year; the budget reporting has recorded no attempts to change approaches during the year. The aggregate local budget was carried out 4.5% worse than the 2019 schedule, while the realization of expenditures decreased during the year, indicating a weakening of administrative impact during the most critical period. We are far from idea scapegoating the local governance, but we are constrained to admit that it distanced itself from overcoming the crisis and missed a unique opportunity to use the extreme situation to unite local communities.

The high excess mortality rates in St. Petersburg inevitably cast doubt on the effectiveness of the administrative decisions of government bodies. However, the absence of decisions at the municipal level casts doubt on the validity of the local self-government model itself.

21.4 Conclusions

The pandemic in Russia led to an unexpected decentralization of powers from the country level to the regional one, which manifested itself in the fact that at the initial stages the federal subjects proactively introduced restrictive measures. Moscow has been a leader and an indicative example here. The federal authorities later legalized these actions by amendments to the federal law, which regulated the status of the high alert regime, and actually gave the regions carte blanche in their actions. However, the answer to the question of whether the rights were actually given or taken is ambiguous, since federal decisions lagged behind regional ones.

At the same time, in the conditions of the contradictory statistical data, lack of a complete understanding of the situation, and strong economic and political motives, the actions of the regional authorities (first of all, the severity of the restrictions imposed) did not correspond to the real picture of the spread of the disease. A case of St. Petersburg shows that the resources of the municipal authorities were practically not used and the actions were largely reduced to situational response, which sometimes turned out to be "yesterday's" and ineffective. High rates of excess mortality in St. Petersburg cast doubt on the effectiveness of regional decisions. However, the absence of decisions at the municipal level casts doubt on the validity of the Russian model of local self-governance itself.

The adopted restrictions combined with insufficient compensatory financial, economic, and institutional measures both at the federal and regional levels seriously affected the tertiary sector of the economy and labor market. The complex crisis of 2020, which began with negative macroeconomic dynamics and was aggravated by a decrease in consumer demand amid coronavirus restrictions, had the strongest impact on two groups of branches of the tertiary sector. The most affected were the types of economic activities that provide services to end users directly in their presence. The greatest losses in regional budgets resulted from the recession in B2B services. Geographically, the crisis affected primarily the federal subjects with a less diversified tertiary sector and regions with an increased share of export-oriented industries in the structure of the economy.

The labor market reacted to the crisis according to the standard scenario for Russia—mainly by reducing hiring, transferring part of employees to part-time work and working remotely, and to a lesser extent, by an increase in real unemployment. The most stable labor market turned out to be in rich regions with a diversified structure of employment and their own resources necessary to support the affected industries.

Within the year, a "high alert regime" led to the introduction of amendments and additions to several hundred federal laws and from several dozen to several hundred laws and other legal acts in each federal subject covering almost all areas of regulation. As legal scholars have noted, the reaction of the Russian legal system to the threat of the pandemic has convinced us of the need to develop a balanced, not extreme "post-COVID law," that will withstand various challenges in the future.⁵³

At the beginning of 2021, the federal authorities adopted new legal decisions that fixed the "return" of powers to the federal center. This decision coincided with the passage of the peak of the second wave and the beginning of the vaccination campaign and should have led to the return of the prepandemic status quo in the relationship of various levels of governance. However, the low growth rates of the number of vaccinated people associated with the lack of confidence in the vaccine, and then the beginning of the third wave in the summer of 2021, again challenge centralization: the story is not over yet.

As the pandemic develops, and in accordance with the dynamics of its consequences, knowledge is accumulating, a more comprehensive, although not always clearer, understanding of the processes is evolving. Legal regulation is also developing. An analysis for a longer period will allow for more complete and accurate assessments. This is a task for further research.

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⁵³An initiative group of professors of the Russian Academy of Sciences Department of Social Sciences held a round table discussion on "Russian Society and Global Challenges." http://www.ras.ru/news/shownews.aspx?id=e1fb719e-05ff-473f-9ac7-1adbd6afa99d#content (accessed March 23, 2021).

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