Economic Systems, Vol. 15, No. 2, October 1991, pp. 195–209
 0939-3625/91/1502/$ 2.50

THE FINANCIAL SITUATION OF THE SOVIET ECONOMY THROUGH THE PRISM OF THE INCOME OF THE POPULATION AND ENTERPRISES

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The authors analyse the financial consequences of Soviet economic reforms during 1987–88. They discuss the growth of household and enterprise income caused by these reforms. The sharp increase in enterprise and household income took place at the expense of the state budget, with debt financing of deficits. The last part of the article is devoted to the specifics of 1990; possible variants for macroeconomic stabilisation policy are also analysed.

1. Introduction

The financial situation of a market economy can be gauged fairly accurately by standard macroeconomic indicators such as the government revenue/government expenditure ratio, the balance of payments, the public debt (domestic and external), the level and liquidity of the population's financial assets, the financial assets and liabilities of banks and other financial institutions, monetary aggregates, and various other indicators. Changes in these indicators reflect fluctuations in aggregate demand, leading to expansion or recession against a background of inflation or deflation. However, the way in which these variables interact in practice is determined to a large degree by the level of business activity, which itself is influenced by institutional conditions, political events and the general climate.

Unfortunately, it is difficult to use these indicators to analyse the cause-and-effect mechanism of inflation in the Soviet Union in the same way as in a market economy. The reasons for this are to be found both in the Soviet price system and in the mechanism of financial-credit regulation and monetary circulation.

Under present conditions it is inherently impossible to measure the increase in the rate of inflation by monitoring contract prices. Goods at fixed prices are not on free sale; most transactions therefore take the form of barter, or else goods are rationed. Soviet estimates of inflation [see, e.g., Belousov and Polyakov (1990), Volkonskiy and Vyugin (1990)] divide it into two components: the first is equal to the increase in average prices, the second to the increase in

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