

## Development of human capital in Uzbekistan by reducing inequality

Mukhitdinova Muyassar Ziyaviddinovna<sup>1</sup>

<sup>1</sup>PhD student of Tashkent institute of finance, Uzbekistan, +998983140794

*Correspondent author:* [muyassarmukhitdinova@gmail.com](mailto:muyassarmukhitdinova@gmail.com) DOI 10.31150/ajebm.Vol2.Iss4.94

**Abstract:** Significant inequality in the distribution of income is socially dangerous and does not correspond to the needs of modern production. The solvency of the population and development of human capital which ensures a high aggregate demand, is an important condition for economic growth. The basis of the new economy is human capital, which is the main driving force of the socio-economic development of modern society. The most important level of increasing the level of employment and income of the population is small and medium business. In order to reverse the current situation, involve the population in business, it is necessary to implement a set of measures, placing on improving the entrepreneurial climate and disclosing the entrepreneurial potential of the population.

**Keywords:** Population incomes, income distribution, income sources, Gini coefficient, real income, nominal income, standard of living, income of the individual and household, transfer payments to small businesses, human capital.

### Introduction

Improving the quality and standard of living of the population is a priority task of socio-economic development of Uzbekistan. To solve it requires overcoming the most acute problems of low living standards, unemployment, high differentiation of society.

The transition to an innovative development path is a strategic priority for Uzbekistan, the implementation of which requires a radical increase in innovation

and investment activity, the construction of advanced industries, the modernization of industry and agriculture, the increase in investment in human capital, the rise of education, science, and health care. In these areas it is necessary to reach world standards.

Significant inequality in the distribution of income is socially dangerous and does not meet the needs of modern production. The solvency of the population, providing high aggregate demand, is an important condition for economic growth. At the same time, maintaining high standards of living standards and quality of life is necessary for the reproduction of the skilled labor force necessary for production in a post-industrial, knowledge-based society.

Analyzing the passed stage of the country's development, changing the world economy in the context of globalization and increasing competition require the development and implementation of radically new ideas and principles for the further sustainable and accelerated development of the country.

### **Theoretical background**

In order to radically increase the effectiveness of the reforms, create conditions for the comprehensive and accelerated development of the state and society, implement priority areas for the modernization of the country and liberalize all spheres of life, the Strategy has been approved actions in five priority areas of the development of the Republic of Uzbekistan in 2017 - 2021. One of the priority areas is the development of the social sphere and in this paragraph a consistent increase in real incomes and employment by

- increase in real cash income and purchasing abilities of the population, further reduction in the number of low-income families and the level of differentiation of the population by income;
- consistent increase in the salaries of employees of budgetary institutions, pensions, scholarships and social benefits in the amounts ahead of the rate of inflation;
- creation of new jobs and ensuring rational employment of the population, primarily graduates of secondary specialized and higher educational institutions, ensuring balance and developing market infrastructure labor; reduction in unemployment;
- creation of conditions for the able-bodied population to fully the implementation of their labor and entrepreneurial activity, improving the quality of the workforce, expanding the system of vocational training, retraining and advanced training of persons in need of employment.<sup>1</sup>

Under the income of the population refers to the amount of cash and material goods received or produced by households for a certain period of time.<sup>2</sup>

If we talk about society as a whole, its income should be considered as a gross domestic product or as the sum of the income of all economic entities, which also represents the value and the measured part of the product produced over a certain period of time. The income of an individual, household, social group is a part and the corresponding value of the produced product, which is obtained as a result of their economic activity.

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<sup>1</sup> Uzbekistan's Development Strategy for 2017-2021

<sup>2</sup> Кравцова Г.Ф. Основы экономической теории. Макроэкономика. Учебное пособие. // dvgups, 19 апреля 2008

## Main part

The distribution of consumer goods and commodities is usually preceded by a distribution of income. The population receives its share of the gross product for personal needs, initially in the form of income. The proceeds received are then used to purchase the necessary goods and services.

Thus, the level of income is of great importance, since it is he who determines the level of consumption. The size and composition of income is one of the most important, although incomplete characteristics of the standard of living of the population. The incomes of the population not only determine their financial situation, but also largely reflect the state and effectiveness of the economy and economic relations in society. Revenues are characterized by level, composition and structure, dynamics, correlation with expenditures, differentiation by different strata and population groups.

According to the data below, in 2000-2016 per capita, one can observe a growth trend in income, wages and pensions. But in recent years, the growth rate of wages and pensions, which are considered one of the main sources in the structure of incomes, and this phenomenon has had its effect on the decrease in total incomes of the population.

**Table 1.**

**Information on changes in per capita incomes of the population, salaries and pensions for 2000-2017**

Indicators	2000	2005	2010	2015	2017
I. Total income per capita, in thousand soums	96,4	371,8	1668,1	4565,2	5800

<i>real growth compared to the corresponding period last year, in percent</i>	124,7	117,4	120,1	110,0	112,2
II. Average annual nominally accrued wages, in thousand soums	13,5	81,5	504,8	1293,8	1453,2
<i>to the corresponding period last year, in percent</i>	146,0	138,7	129,4	110,4	112,3
III. The average amount of the established pension, in thousand soums	7,4	31,7	171,9	494,2	567,3
<i>The average amount of the established pension, in thousand soums</i>	152,0	143,5	125,9	112,8	114,8

According to preliminary data, in January-December 2017, the total volume of the aggregate income of the population amounted to 186.2 trillion. UZS and compared with the corresponding period of 2015, increased by 22.8% (real growth - 12.2%). In terms of per capita, real income amounted to 5.8 million soums. The highest rates were recorded in Tashkent - 12.7 million soums per person, Navoi region - 9.1 million soums (real incomes of citizens) and Bukhara region - 6.7 million soums.

The total volume of income from labor activity has grown due to changes in income from labor activity. The share of labor income in the overall structure was

68.8%, of the transfer - 24.8%. At the same time, income from transfers in 2017 increased by 55.9%.

In 2017, the income of employees increased by 12.8%, and their share in the income structure is 34.3%. Incomes of citizens from self-employment, which make up 34.5% of the total income structure, increased by 14.6%. [4]

*Table 2*

**Real total population income by region of the Republic Uzbekistan for  
January-March 2018**

	<i>Total billion soums</i>	<i>In % from January to March 2017</i>	<i>On average per capita, thousand soums</i>	<i>In % from January to March 2017</i>
<b>Republic of Uzbekistan</b>	<b>36073,8</b>	<b>110,6</b>	<b>1 102,8</b>	<b>108,8</b>
Republic of Karakalpakstan	1623,3	111,3	879,9	109,8
<i>Regions:</i>				
Andijan	2764,1	114,5	916,4	112,6
Bukhara	2226,4	109,6	1 189,0	108,0
Jizzakh	1069,0	108,9	805,3	106,9
Kashkadarya	2849,4	109,3	903,4	107,2
Navoi	1704,6	104,4	1 776,2	102,8
Namangan	2177,0	112,3	805,1	110,4
Samarkand	3491,5	116,6	936,8	114,4

Surkhandarya	2213,1	116,1	878,4	113,7
Syrdarya	774,4	109,1	947,8	107,4
Tashkent	3395,6	104,1	1 185,5	102,9
Ferghana	3169,6	109,1	874,2	107,5
Khorezm	1873,0	116,9	1 036,2	115,1
Tashkent city	6723,7	109,0	2 721,7	107,1

***According to January-March 2018, total per capita income***

The population in the Republic of Uzbekistan averaged 1.3 million soums (real growth - 8.8%). At the same time, the average per capita aggregate income of the population above the national average was observed in Tashkent (3 310.7 thousand soums), Navoi (2 111.4 thousand soums), Bukhara (1 414.3 thousand soums) and Tashkent (1403, 6 thousand soums) areas.

By redistributing concentrated money mass, the state performs its basic functions. All participants in social production to one degree or another interact with the state budget. It is very important which regulatory tools the state needs to use to reduce differentiation, because government measures can affect both the market and capital and income distribution. Income distribution is mainly influenced by tax policy. Within the framework of the theory of “guaranteed income of a citizen”, programs are being developed that ensure the inalienable right of every citizen, regardless of gender, age, nationality, religion, marital status, to receive a small but guaranteed income. It uses negative income tax, social dividend.

The tax policy and the system of social payments implement the concept of the state and society, reflecting the existing system of values. Public goods are always available for consumption by individuals, even if already used by others, and

consumed by the entire population, for example, clean air, street lighting, national defense, police. There is a problem of "free rider" - a free user of benefits. How much of the state budget, formed from tax deductions of citizens, will be spent on the provision of public goods, the government decides. Essential goods such as health, education, food, as well as public goods, should be consumed by the entire population, regardless of income. However, guaranteed individuals must receive certain essential goods in certain quantities. For example, all children attend school, but which of the schools to choose - public or private financed from the budget - is decided by the parents based on their income level. At the same time, the standard of living of the population who chose a regular school is improving thanks to the state, and the standard of living of those who prefer a private school is raised as a result of their own investment in human capital. The same situation arises when choosing between public and private medical institutions.

By redistributing income through taxation and the system of social payments, the state ensures social peace and prevents excessive differentiation of incomes of the richest and poorest citizens. The main argument in favor of equal income distribution is that equality is necessary to maximize marginal utility, or to satisfy consumer needs. The main objection to the equalization of incomes is that in order to achieve this goal, the state must withdraw part of the income of citizens in the form of taxes and transfer them to the more needy, thereby reducing the desire to maximize earnings for both. As a result, incentives for high productivity work are reduced. Under these conditions, the efficiency of the economy decreases and the national economy, *ceteris paribus*, can enter a period of prolonged stagnation, as, for example, in the USSR in the 70s - the first half of the 80s.



Thus, any system of income redistribution has a discouraging effect on economic agents. The search for a compromise between efficiency and social justice is ongoing, for the sake of a more equitable distribution it is necessary to sacrifice efficiency. You should use such methods of income redistribution, which have less demotivating effect on individuals and lead to less loss of efficiency.

The American economist A. Okun compared the redistribution of income from rich to poor with a “leaky bucket”, since this process inevitably leads to a decrease in economic efficiency. The magnitude of the “leak” from the Okun’s bucket is determined by how much higher taxes and increased social transfers reduce the supply of labor. In the event that the elasticity of the labor supply for wages is high, raising taxes in order to increase social transfers leads to a significant reduction in labor supply in the legal sector of the economy and its overflow into the shadow sector, where wages are not taxed by state taxes.

A Pareto-efficient state of the economy can only be achieved with such a mechanism of income redistribution, when taxes and subsidies depend on the value of the initial stock and do not depend on how the resources that make up the initial stock are used. These are lump-sum (lump-sum) taxes and subsidies. For example, land tax or other types of real estate that are paid even if the resources are not used at all. Such taxes and subsidies do not affect the amount of income received from the use of resources, and, therefore, do not encourage less efficient use of these resources.

However, in practice it is often impossible to determine the value of the initial stock. Therefore, in reality, redistribution is carried out mainly through taxes and subsidies, the amount of which depends on the size of individual income.

Such taxes and subsidies encourage less intensive use of resources, in particular, a decrease in labor activity. As a result, cash, potentially available resources are underutilized, which indicates Pareto inefficiency.

If we consider the dynamics of the development of society, it will become obvious that lump-sum taxes and subsidies, strictly tied only to the cost of the initial stock, also create a tendency to inefficiency. The amount of resources that make up the initial stock of individuals may vary. People learn, improve their skills, try to increase the amount of material resources at their disposal. Therefore, taxation and subsidies depending on the cost of the initial stock will discourage the growth of labor potential and the entire resource base of the company in the long term.

### **Regulative basis**

Raising the living standards of the working-age population involves ensuring effective employment, improving wage regulation.

Currently, wage regulation is carried out in the following order:

1. At the state regulation level, the minimum wage and the procedure for calculating the average wage are determined, the size of tariff rates and official salaries for employees in the public sector are established, and certain guarantees for wages are approved;
2. At the level of industry regulation, the minimum wage in the industry is determined (the minimum wage in the industry may be higher than the minimum wage approved by government bodies) and the ratio of wages between the categories of workers in the industry is established;
3. At the level of regulation of the enterprise, the sizes of tariff rates and official salaries for the employees of the enterprise are determined, the ratio of wages between

the categories of employees at the enterprise is established, and the size of bonuses based on the results of the enterprise's work for the year is approved.

In the context of inflation, which is quite relevant for Uzbekistan, the state faces an additional problem - maintaining real incomes, which is solved by establishing control over inflation and the exchange rate, wages and prices, indexation, issue of money.

In order to protect cash incomes, indexation is used - a mechanism established by the state to increase the cash incomes of the population, which allows it to partially or fully compensate for the increase in the cost of consumer goods and services. Accounting for rising prices for consumer goods (including tariffs for services to the population) is one of the most important conditions for rational state regulation of income. This measure is primarily aimed at maintaining the purchasing power of especially socially vulnerable groups of the population with fixed incomes - pensioners, disabled people, single-parent and large families, as well as youth. Indexing is carried out both at the national level and by individual enterprises and organizations through a collective agreement.

Income indexation has significant disadvantages. For example, it can adversely affect the implementation of anti-inflation measures, therefore, it has been rarely used recently in developed countries.

As part of the anti-inflationary policy, control over wages and prices can be established, during which the maximum permissible long-term limit for the growth of wages and prices over a period of time is determined by law, taking into account the general needs of economic and social development. The specific methods for regulating wages in a market and transition economy are different, but preference is most often given to voluntary agreements of employers and workers (collective

agreements) with the participation of trade unions and the government, which does not exclude the application of administrative measures of state control over linking the increase in wages with the financial capabilities of the enterprise. Based on the minimum wage, these agreements establish differentiated wages depending on the level of qualification and a specific industry, various bonuses and surcharges. In a number of countries in Western Europe, there are so-called allowable limits for wage increases recorded in nationwide social partnership programs.

In the transition to the information society, the functions of the state change, and regulatory methods develop. During the post-industrial stage of development, the greatest attention was paid to the fight against poverty, social assistance to vulnerable groups of the population, and after solving these problems, the formation of social insurance mechanisms was carried out.

Social insurance is the main among the main organizational and legal forms of the social protection system in countries with market economies and is intended to provide material support to the population in case of social risks, for example, such as the onset of temporary disability, industrial accident, loss of work or breadwinner, loss working age. The degree of use of other forms is due to the limited capacity of the institution of social insurance in organizing a social protection system, as well as the degree of development of the institution of social insurance in individual countries.

Social insurance is a special form of organized mutual assistance in which the risk of insured events is taken into account in advance, and material losses associated with this risk are distributed in advance among all participants in the insurance program. Social insurance is carried out in the form of compulsory and voluntary insurance. The compulsory social insurance system covers pension insurance, social

insurance (including compensation for harm from work-related injuries) and medical insurance. With social insurance, monetary redistributive relations arise, which are “caused by the likelihood of sudden, unforeseen and insurmountable events, that is, insurance claims entailing the possibility of damage. Insurance allows you to distribute the total amount of damage caused between insurance participants - policyholders.”<sup>3</sup>

The main expense items of social insurance funds are:

1. Payment of labor pensions (in case of loss of the bread-winner, old age and disability, for length of service), as well as social pensions and pensions for military personnel;
2. Payment of compulsory social insurance benefits;
3. Payment of temporary disability benefits;
4. Payment of benefits for pregnancy and childbirth, as well as for the improvement of the population, unemployment benefits.

The basic minimum social guarantees are already enshrined in law, social insurance is developed and successfully operates. Now it is necessary to pay attention to such a method of state regulation of income as taxation, the potential of which is not fully disclosed.

In the context of globalization and economic transformation, one of the main state tasks is the sustainable reproduction of human potential. In economic terms, the development of human potential in modern society implies long-term investment and requires large material costs. The state (government), non-governmental public funds and organizations, regions, individual firms, as well as households (individuals) can

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<sup>3</sup> Трансформационная экономика России: Учебное пособие / А. В. Бузгалин, В. В. Герасименко, З. А. Гиндберг и др.; Под ред. А. В. Бузгалина. – М.: Финансы и статистика, 2006. с. 546-547.

finance investments in human capital. The return on investment in human capital directly depends on the life expectancy of the individual, namely on the length of the working period. The sooner investments are made in a person, the faster the investments begin to give returns. The phased implementation of the concept of human development, which considers people as the most significant development resource, is very important. The human capital development program should cover the following areas and directions:

1. An increase in the level and quality of education of the population from preschool to postgraduate through deeper integration of science and education, the provision of educational loans, and the reform of the entire education system;

2. Improving the demographic situation by transforming and increasing funding for the health care system, physical education and sports policies, as well as creating conditions and creating motivation for a healthy lifestyle;

3. Improving the quality of life of the population through an increase in the level of wages, optimizing the system of social and pension benefits, raising the level of culture and recreation of the population

Improving the level and quality of life that affect human potential through state regulation of income through taxation and social benefits has been considered previously. Attention should also be paid to the consumption of essential goods by the population, such as education and medicine. Ongoing national projects and relevant regional target programs should become integral parts of a comprehensive human development program.

One of the elements of the system of reproduction of human capital is the provision of educational services to the population. In the process of education, creative activity, intellectual human capital is formed. Of particular importance is the

possibility of guaranteed primary and secondary education from the state budget. General and special education improve the quality, increase the level and stock of human knowledge, thereby increasing the volume and quality of human capital. Vocational education is becoming increasingly important. While financing of general educational institutions of pre-school and general education, as well as primary and secondary vocational education institutions, is more than 80% funded by the state, then financing of higher vocational education institutions is almost half carried out at the expense of extrabudgetary funds, since individual companies through the organization of vocational training and retraining courses. The intellectual potential of the employee, which is a combination of skills and knowledge used to carry out production activities, i.e., realized, is transformed into intellectual human capital. Education requires the investment of significant resources from both the state and households. Investments in higher education contribute to the formation of highly qualified specialists, whose work and professionalism have the greatest impact on economic growth. Higher education is a traditional resource that provides a rise in the social ladder and an increase in material well-being.<sup>4</sup>

Human capital is also formed through investments in improving the level and quality of life of the population. The social sphere is becoming the sphere of reproduction of human capital. Investments related to the protection of health lead to a reduction in diseases and mortality, prolong a person's able-bodied life, that is, they can slow down the process of depreciation of human capital. The costs of firms for the treatment of workers for preventive measures, for the construction of physical education and health centers, kindergartens also contribute to improving the quality

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<sup>4</sup> Авраамова Е., Малеева Т. О причинах воспроизводства социально-экономического неравенства: что показывает ресурсный подход? // Вопросы экономики. – 2014. № 7. с. 146.

of life and human capital. The state is currently taking certain steps in this direction through the implementation of the national projects “Health”, “Affordable Housing”.

Thus, the concept of “quality of life” is used very widely, but it does not have a generally recognized formalized structure and a standard set of indicators. Priorities depend on the needs of people closely related to the level of development of countries and regions, as well as on the possibilities and sources of collecting reliable information. Therefore, different international indices use different criteria and different calculation methods.

According to the results of the consideration of existing indices, the following components of the quality of life can be distinguished:

1. incomes of the population;
2. poverty and inequality;
3. The dynamics of demographic processes;
4. education and training;
5. health, food, and nutrition;
6. condition of the dwelling (settlements), infrastructure, communications;
7. resources and the state of the environment;
8. culture, social ties, family values;
9. political and social stability (security);
10. Political and civil institutions (democracy and participation).

We can also conclude that there are three main approaches to measuring quality of life:

1. Objective. The quality of life is determined through the parameters of objective conditions and processes of human life.
2. Subjective. It implies the definition of quality of life based on opinion polls.



## Discussions

Uzbekistan ranked 105<sup>th</sup> in the UN Human Development Index (HDI) for 2018. The HDI is a statistic of life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers of human development. A country scores higher HDI when the lifespan is higher, the education level is higher, and the GDP per capita is higher.

Uzbekistan's HDI value for 2017 is 0.710—which put the country in the high human development category—positioning it at 105 out of 189 countries and territories. Between 2000 and 2017, Uzbekistan's HDI value increased from 0.595 to 0.710, an increase of 19.3 percent. Between 1990 and 2017, Uzbekistan's life expectancy at birth increased by 4.9 years, mean years of schooling increased by 2.4 years and expected years of schooling increased by 0.7 years. Uzbekistan's GNI per capita increased by about 233.5 percent between 1990 and 2017.

Uzbekistan's 2017 HDI of 0.710 is below the average of 0.757 for countries in the high human development group and below the average of 0.771 for countries in Europe and Central Asia. From Europe and Central Asia, countries which are close to Uzbekistan in 2017 HDI rank and to some extent in population size are Kyrgyzstan and Tajikistan, which have HDIs ranked 122 and 127 respectively.<sup>5</sup>

One of the factors to increase household incomes is the development of small business.

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<sup>5</sup> Human Development Indices and Indicators: 2018 Statistical Update

## Conclusion

It is small business that is the basis for the formation of the "middle class", therefore, helps to weaken the tendency towards social differentiation inherent in a market economy.

It should be noted that, according to preliminary data, in January-March 2018, of the total population income, the share of income received from small businesses amounted to 47.7%. In other words, all this indicates that small business and private entrepreneurship have become an integral and most important part of our national economy, have become a leading force in solving many economic and social issues, the development of industry and services, ensuring a prosperous life for people.

Business development and an increase in the number of entrepreneurs determine the dynamics and structure of incomes of the population. Over the past decade alone, real incomes from entrepreneurial activity in total household income have grown to more than 50% of all incomes. In a word - the development of small business and private entrepreneurship, the formation of a favorable business environment means not only strengthening the national economy, increasing its competitiveness, but also ultimately the well-being of the population.

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