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# HUMAN DEVELOPMENT



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RUSSIAN ECONOMIC UNIVERSITY AFTER G.V.PLEKHANOV  
BRANCH IN TASHKENT, UZBEKISTAN

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# HUMAN DEVELOPMENT

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**TEXTBOOK**



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In this textbook there stated theories and basic foundations of human development concept, its components, demographic and ecological components, interrelation with models of economic development and economic growth, design procedure of human development index. Results of human development in the Republic of Uzbekistan and National goals of millennium development were considered in detail.

In the textbook there used methodological elaborations of human development concept, stated in Global and regional reports of UN Development Program and national reports of the Republic of Uzbekistan.

The textbook is intended for students and teachers of higher educational establishments and also specialists interested in the problems of human development.

**References:**

**1. Professor of international economics and management,  
Doctor of economic science, Gerhard M. Feldmeier**

**2. Doctor of economic science, Professor L.I. Shibarshova;**

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# CONTENTS

<b>FOREWORD</b> .....	<b>6</b>
<b>INTRODUCTION</b> .....	<b>10</b>

## PART I

### CONCEPT AND MEASUREMENT OF HUMAN DEVELOPMENT

CHAPTER 1. SOCIAL DEVELOPMENT THEORIES .....	16
1.1. Methodological bases of social development theory.....	16
1.2. Economic growth and its measurement .....	27
1.3. Evolution of the role of human factor in theories of economic growth.....	41
CHAPTER 2. HUMAN DEVELOPMENT CONCEPT .....	52
2.1. Economic growth and human development .....	52
2.2. Formation and development of human capital theory .....	62
2.3. “Genuine wealth of nation is people” .....	78
CHAPTER 3. HUMAN DEVELOPMENT MEASUREMENT .....	89
3.1. Basic criteria of estimation of human development potential and their characteristic .....	89
3.2. Design procedure of human development index and its composite components .....	99
3.3. Goals of millennium development of UNO, their tasks and indicators .....	120
CHAPTER 4. EMPLOYMENT IN HUMAN DEVELOPMENT CONTEXT .....	130
4.1. Interrelation between employment and human development ..	130
4.2. Manpower and its structure .....	141
4.3. Tendencies in employment sphere in Uzbekistan .....	149

**PART II**  
**LIVING STANDARD AND HUMAN DEVELOPMENT**

CHAPTER 5. WELL-BEING CONCEPT AND LIVING STANDARD....	160
5.1. Theoretical and methodological bases of well-being concept ....	160
5.2. Living standard and quality of life, their factors and indicators ..	168
5.3. Equality and human development .....	177
CHAPTER 6. HUMAN DEVELOPMENT FACTORS.....	190
6.1. Education and human development .....	190
6.2. Health is a key condition of human development .....	199
6.3. Demographic situation and its role in human development ...	208
6.4. Gender factors of human development .....	221
6.5. Influence of environment on stable human development .....	230
6.6. Ownership of an apartment is a criterion of living standard and quality of life .....	239
CHAPTER 7. SOCIAL PROTECTION OF POPULATION AND HUMAN DEVELOPMENT .....	249
7.1. Role of social protection system in human development .....	249
7.2. Strong social policy is a priority direction of “Uzbek model” development .....	263
7.3. <i>Makhalla</i> is a unique institute of organizing population social protection of Uzbekistan .....	276

**PART III**  
**HUMAN DEVELOPMENT IN UZBEKISTAN**

CHAPTER 8. “ALL FOR THE PERSON, FOR THE SAKE OF PERSON’S INTERESTS” .....	298
8.1. Gaining the independence and elaboration of national model of human development .....	283
8.2. Reforming economy and its influence on human development..	298
8.3. Investments in human capital .....	313
CHAPTER 9. GOALS OF MILLENNIUM DEVELOPMENT OF UNO AND RESULTS OF THEIR REALIZATION IN UZBEKISTAN.....	324
9.1. National reports on human development in Uzbekistan .....	324
9.2. Regional aspects of human development of the country .....	336
9.3. State regulation of elaboration and realization of national goals of human development .....	345
9.4. Human development and civil society .....	351
CHAPTER 10. NATIONAL GOALS OF MILLENNIUM DEVELOPMENT OF UZBEKISTAN .....	358
10.1. Prospects of realization of national goals of millennium development .....	358
10.2. Formation of “economy of knowledge” in Uzbekistan .....	366
10.3. Basic directions of improving human development .....	380
<b>GLOSSARY</b> .....	<b>389</b>
<b>REFERENCES</b> .....	<b>413</b>

## FOREWORD



Socio-economic development of countries in transition has its own peculiarity and specificity. When it comes to the quality growth and wellbeing of the population, first of all, there compared the indicators of human development, accumulated human capital. And in the conditions of globalization and increase of the role of science and technology in the organization of modern production, the role of human capital

becomes increasing and an important component to ensure competitiveness of the economy of any country.

As it is known, inter-country researches on revealing the role of human capital in solution of socio-economic development of society started from the late 90s under the auspices of the UNO. In practice of international comparisons there often applied the indices of human development compiling necessary information on the role of human capital. The level of conducted socio-economic reforms and the role of states in ensuring sustainable growth have been valued on how countries advanced in providing decent and quality life for the population.

Arsenal of applied parameters and indicators is enriched with the development of new approaches of measuring human capital. Together with the increase in per capita income, in practice there applied such important parameters determining the quality of life: conditions and standards of living, provision of population with new first-class accommodation, development of preschools and schools, provision of population with high-quality consumer goods, the number of children with access to schools and others. All this allows to draw a conclusion on the quality of conducted measures of the state on improving the rates of human capital.

Uzbekistan on the way of formation of independence had relatively poor human development indicators among the CIS countries. Lag in the rates of income growth of the population, low level of provision with consumer goods and

services, lack of own funds for the development of reclamation industry, infrastructure of social sphere did not allow to implement integrated measures of transition at the early stages of market reforms.

However, over the past twenty years Uzbekistan truly achieved much progress in the development of economy and human development. Implemented radical reform of transition to the socially oriented market economy, developed by President Islam Karimov has justified its purposefulness, vitality. Over the past six years of overcoming the global financial and economic crisis we observe economic growth of Uzbekistan on average at least 8.0%. Every year, export of the country in favor of science intensive goods and services is diversifying; investment infrastructure that supports the introduction of advanced manufacturing sciences is improving. According to the literacy rate, index of achieved educational attainment, access of children to schooling and professional education, Uzbekistan is on a par with industrialized countries.

Uzbekistan enters a phase of improvement of productive forces, when a human, his knowledge, skills and abilities to work and professionalism are more appreciated. Level of economic development is increasingly determined by creative, labor and intellectual potential of a human, condition of intangible forms of wealth and spheres, providing personal development and formation of new knowledge. In this regard, profound changes occur in the system of reproduction of the people, accumulation and efficient use of human capital at all levels of social reproduction.

Study of the issues determining and changing the role of a human in social reproduction, and his role in sustaining economic growth is becoming important. The role of investments in human capital, as a prerequisite for high-quality reproduction of productive forces is increasing everywhere. At the same time the problems of formation, accumulation, development and effective use of human capital are still not completely solved.

This is due to a variety of reasons. Infrastructure development creates necessary favorable conditions for location of new enterprises and economy



development as a whole. Access to the development of rich mineral resources of the country is expanding and thereby the system of production infrastructure is developing. And their effective functioning is essential condition and factor of reducing total production costs that increases competitiveness of producible output and branches of the economy as a whole.

Development of social infrastructure is ultimately directed at improving the quality of life of the population and is a vast sphere of application of labor that allows to create new working places and ensure efficient and rational functioning of human capital as a productive factor in the development of population, particularly the youth, raise the level of incomes and welfare of people.

The problem of human capital is increasingly acquiring significance among the objects of research of domestic and foreign economists. The attempts to reveal its most distinctive qualities and properties, to evaluate, measure and give quantitative interpretation, gradually became more frequent and successful as the subject of research matured - a person with a set of attributive productive abilities and carrying out expedient and creative activities through their actualization.

Basic elements of human capital are educational attainment (knowledge), professional training (skills, abilities, production experience), possession of economically meaningful information (awareness), mobility of an employee, health capital. Thus, differences on intellectual, physical and psychological attributes underlie the classification of human capital elements.

As a witness of changes and observing progress in Uzbekistan I can note that in this country there are very strong social institutions of supporting initiatives of human capital development. Among them one can note the role of makhalla – an important institution of local self-government of citizens, on which social policy of the state is based. Its role and place are not comparable to the existing self-government bodies of citizens in other CIS countries and Europe.

Moreover, a particular importance is attached to the training and employment assistance of youth, an important source of the improvement of productive forces and labor resources. The large-scale measures on development of

schooling and higher education on the initiative of the government are carried out in the view of integration into international educational space.

Presented textbook “Human Development” is the result of many years’ work of our colleagues – our partners – scientific researchers of Tashkent Branch of “Russian University of Economics after G.V.Plekhanov”. The authors of this textbook prof. Abdurakhmanov K.Kh. and prof. Zokirova N.K. are members of International Academy of Labor and Employment and published it for the first time in the Republic of Uzbekistan. It is a new view on the problem of human development by the view of scientists from countries in transition, having good experience of comparing market reforms in the social sphere.

Furthermore, this edition of textbook is implemented in the framework of our cooperation agreement between the University of Applied Sciences (Hochschule Bremerhaven) and Branch of “Russian University of Economics after G.V. Plekhanov” in Tashkent and serves as a first step in scientific and research exchange. We hope that stated issues and views of our colleagues will not remain German scientists, teachers and students indifferent in the field of knowledge of Uzbek view of human development.

**Professor Dr.  
Gerhard M. Feldmeier.  
Vice President on Academic and International Relations  
University of Applied Sciences Bremerhaven**

## INTRODUCTION

At present time, the leading countries of the world are in the post-industrial stage of development, where the role and place of the factors of economic growth change. To the traditional triad of these factors - labor, land, capital, scientific and technological progress is added, and information and knowledge became essential resources. Moreover, innovative economy, where dominant place is given to the human, is formed namely on this basis.

In Uzbekistan, the reforms are conducted in the country always focused on human development. As the President of the Republic of Uzbekistan Islam Karimov noted "The development of the social sphere, the formation of jobs and employment of population, construction of housing and community amenities, further reform and improvement of the educational process and health have always been and remain in the focus of our attention"<sup>1</sup>.

For a long time, the time of the industrial society transformation, economic idea in general was influenced by processes occurring in the field of material accumulation. Material factors are considered as universal and main.

There is no doubt that economic growth leads to an increase in wealth of the country as a whole, expanding its potential in the fight against poverty, hunger and other social problems resolution. That is why a high level of economic growth is one of the main targets of economic policy in many countries around the world.

Material wealth plays an important role in society and in human life. The income growth can be considered as a primary means, contributing to the expansion of the individual - such as employment at a prestigious job-generating material and moral satisfaction. In addition, income is a source of taxes and other revenues that are necessary to guarantee social protection of vulnerable

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<sup>1</sup> Karimov I.A. 2014 will be the year of rapidly development of the country, mobilization of all possibilities, successive continuation of reforming strategy proved its worth // Report on the meeting of the Cabinet of Ministers, dedicated to the results of socio-economic development in 2013 and the most important priorities of economic program for 2014 // Khalk suzi, January 18,2014.

populations, to implement social programs, i.e. to implement the redistribution of wealth.

Namely, a fair distribution of resources empowers human choice for all members of society, and creates a basis for improving the quality of life. The relationship between income and life should be formed with the help of state strategy that includes measures of fiscal and social policy.

By itself, the income measured by value of gross domestic product (GDP), is not the only measure of human development. In the history many examples can be found, when GDP growth was not accompanied by adequately improved education, health promotion, ensuring freedom and human rights. Even countries with approximately the same average income of the population can vary considerably in terms of life quality.

In the human development concept, the traditional macroeconomic indicators, including gross domestic product and per capita income cannot be as a universal criterion for the distribution of public resources or ranking of countries by development level. The idea that the production of more and more goods and services is the best way to improve living standards and resolving other national objectives, is one-sided in some extent.

This approach leads to an underestimation of the many non-economic parameters of development. The standard of living can be relatively low at formally high economic growth rates. The opposite situation is also possible - relatively high standard of living at moderate rates of economic growth.

If in the pre-industrial society in provision of economic growth, the priority is related to natural and labor resources, in industrial to material, in the postindustrial to intellectual and information resources. The development of the leading countries of the world led to the formation of the new economy - the knowledge economy , innovation, global information systems, new technologies and venture business.

The basis of the innovation economy is human capital, which is the main driving force of economic and social development of modern society. In other

words, the human mind became directly productive force, and not just a particular element of the production system. Initially, the concept of human development included a small number of components - upbringing, education, knowledge, health. In addition, for a long time human development was considered as a social factor of development, i.e. cost factor from the point of view of the theory of economic growth. It was believed that investment in upbringing, in education are unproductive, costly. In the second half of the XX century, the relation to the human capital and education gradually changed dramatically.

In the social development in the beginning the human is given the centrality not only in the spiritual links, but also in reproductive links, as the man is the driving force of society due to the accumulation and utilization of productive forces and the knowledge passed on from generation to generation. This idea is realized in the category of "human capital", underlies in the basis of the world social thought, proposed by followers of new theories "sustainable human development" new "concept of national wealth", formulated by UN experts, based on the models by which it is determined the impact of human potential on the dynamics of human development.

It should be noted that the priority of the human capital development is universal for both developed and developing countries, and for stable economies, and for systems undergoing modernization, which is confirmed by numerous studies of the world's leading scientists and experts from international organizations.

Human development - is an extension of the selection so that people can live a long and healthy life, have education and have the assets for a decent life. The development allows people have that choice, but people make choices on your own. The development process must create favorable conditions so that people are able to develop their potential in accordance with their needs and interests. The concept of human development is broader than simple formation of abilities. It also includes the use of these opportunities in work, rest and social activities. Moreover,

if there is no balance between the formation of opportunities and usage, human potential remains unrealized.

Basic measurement of human development is the Human Development Index, which reflects the life expectancy, literacy and access to resources. Welfare of the country depends not on the level of income, and how revenues are used. High level of income by itself does not guarantee human progress. Thus, it is necessary to distinguish between two aspects of human development - the development and use of opportunities. Sustainable human development is development that not only leads to economic growth, but also to the equitable distribution of its results. This development gives priority to the poor, increasing their opportunities and ensuring their participation in decisions that affect their lives. This development - for people to increase the number of jobs and welfare in society.

In developed countries, the investment in human and social protection of the population from the beginning of the second half of the XX century, more and more surpass the volume of the material accumulation. Industrial investments despite their importance increasingly giving way to investment in human development, and the most significant changes in the reproduction process of these countries are occurred outside the sphere of material production.

The concept of human development is quite diversified and rich in possibilities of applying to the various aspects of human and social existence. Evidence of this, in particular, can serve the annual reports of the UNDP and national reports from different countries.

The first report in 1990, along with the deep development of the theory and measurement indicators contained thematic section devoted to urbanization. In the next reports it was analyzed such aspects as the life needs, various measurements of human safety, opportunities for social development by reducing military spending, new directions of cooperation, poverty alleviation, employment, the impact of globalization, consumption models, the relationship of human

development with the criteria of ecological sustainable development and many others.

Thus, a modern vision of progressive social development diverts to human central place not only in the traditional spiritual sphere of public life, but also in the circulation of reproductive relations, based on the recognition that the human is both the initial and final points of the socio-economic development. Human or social measurement of this development becomes defining dominant and material-good potential - the condition of this development.

After independence and joined the United Nations the Republic of Uzbekistan took over all the key obligations of membership in the international community.

Country accepted the concept of human development, not only because the other members of the UN made it, and because the ideas and positions of the concept fully comply with the centuries-old life aspirations of the Uzbek people.

In the first half of the 90s of the twentieth century the information about Uzbekistan started to be included in compiled by the UN Development Programme (UNDP) global (global) and regional reports. And the first national report on human development in Uzbekistan was prepared in 1995. By this step it was started the beginning of tradition of annual objective description, evaluation analysis by international and domestic experts of the situation in priority sphere of socio-economic country development, as well as development of recommendations for improvement.

Progress, achieved by Uzbekistan in the field of human development is obvious. The greatest progress has been made in the economic sphere; according to the national reports in the past decade growth of the GDP index per capita is three times higher than the overall growth of the human development index. During the years of independence state expenses for social services and social protection have increased more than 5 times. Each year, about 60.0% of the State budget is allocated to the social sphere.

Yearly expenditure on education in Uzbekistan is 10,0-12,0% of GDP, while in the world, this figure does not exceed 3.0-5.0%. The country has implemented a unique national program of training, since 2009 compulsory education is 12 years.

Provision of clean drinking water to the population reached 82.5 percent and natural gas - 83.5 percent, it was made decisive steps for radically reforming and development of health care, elimination and substantial reduction of serious infectious diseases.

The average life expectancy of people in this period increased from 67 to 73.5 years, and women - up to 75 years. Today 48.0% of all employment in the country economy is women.

Achieved results in human development was the result of correct chosen and successfully implemented the "Uzbek model" of reforming economy and social sphere.



# PART I

## CONCEPT AND MEASUREMENT OF HUMAN DEVELOPMENT

### CHAPTER 1. SOCIAL DEVELOPMENT THEORIES

#### 1.1. Methodological bases of social development theory

The entire history of social development was accompanied by the elaboration of conceptual approaches to the category "society". Social, philosophical, economic theories offer different interpretations of the concept. For example, atomistic theory considers "society" as a collection of individuals or existing relations between them: "The whole society, in the end, it is possible to imagine as light web of interpersonal feelings or arrangements. Every active person can be presented as sitting in the middle of woven web associated directly with a few others, and indirectly - with the whole world"<sup>1</sup>.

According to the studies of Max Weber<sup>2</sup>, the society - a collection of acting individuals, each of which seeks to achieve their own goals<sup>3</sup>.

In general, *society* - is a complex, volumetric, multi-level, open, organic system based on collective human activity. The essence of society - is the basic system underlying in the basis of social organism - a social institution.

*Social institution* - is stable association of people in collective action in order to ensure its own reproduction and development, which makes the values necessary for the reproduction and development of society.

*Value* - is what meets people requirements. They can be as the needs, material, spiritual and social.

Historically, the *original social institution* - a kind of - family, where carried out all necessary things for its life and development functions. Now these functions are performed by certain social institutions, in which it was formed the social

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<sup>1</sup> Sociology: The basis of common theory. Textbook. – M., 1996. - P.102.

<sup>2</sup> Maximilian Karl Emil Weber (*Max Weber*, 1864-1920) --- German sociologist, historian and economist. The main work on the economy: Nation and national economic policies (*Der Nationalstaat und die Volkswirtschaftspolitik*)

<sup>3</sup> See.: Frolov S.S. The basis of sociology. – M., 1997. - P.14.

subsystem and spheres of public life. There are production areas of material and spiritual wealth.

*The sphere of production of material welfare (values)* also referred to as "material production" or "economy" (in the narrow sense of the word). The "Economy" in the broadest sense - a set of economic relations in all spheres of public life.

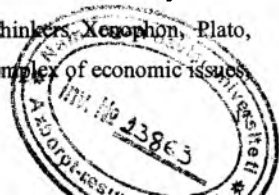
*Production sphere of spiritual welfares (values)* - "intellectual production" consists of two spheres: the sphere of science and art. The sphere of science provides objective knowledge about reality. It is divided into three groups of sciences: philosophy, science, and social studies.

*Sphere of art* provides a subjective experience in the development of reality in a concrete shape in the form of art works.

The society as a system in the period of its existence goes through the process of development. In the course of the historical development, a particular society changes, not only quantitatively but also qualitatively changing the way of operation, the way (the style) of life, it transits from one type of society to more developed another one. The way of functioning basic social institutions is determined by the method of motivation to activities of direct producers that determines ultimately, the way of functioning of society and its structure that gives a basis for allocating social type of society.

History of economic thought begins from written sources of theocratic states of the ancient world. In ancient Egypt, there was a certain type of planned economy, built around an irrigation system. Assyrian and Babylonian theocracy developed financial institutions to a high degree of perfection with knowledge of credit and banking. In ancient China, people routinely were engaged in agricultural, commercial and financial issues. The Chinese had the methods of monetary regulation and control the exchange of goods that involve some analysis.

In the V-IV centuries BC, the economic phenomena were first subjected to scientific analysis in the writings of ancient Greek thinkers, Xenophon, Plato, Aristotle. The thinkers of ancient Greece not only put complex of economic issues



but also gave them their answers. They coined the term "economy" and derive from it "the economy". By economy the ancient thinkers understand science, which can be used to enrich economy. They also put forward the idea of labor division, spoke out the guess that in the basis of equality between goods there is something in common that makes them comparable, for the first time they made a distinction between simple commodity circulation and circulation of money as capital.

Known representative of economic thought is ancient Greek philosopher Plato. Economic issues were considered by him in two works: "The State" and "Law". The first describes the ideal state, in the second - more real. The Plato's ideal state was the city-state, which supposes to be small and possibly with constant number of inhabitants. Same as stationery the population must be wealth.

All economic and non-economic activities were strictly regulated - warriors, farmers, artisans organized into permanent caste, the ratio of men and women were strictly identical. One of these castes - caste custody or rulers who had to live together and have no personal property or family ties - trusted management of the state.

The concept "economic growth" and "economic development" are often used in the same context, although they have significant differences. Economic growth (increase in national product or per capita income) reflects an increase in aggregate supply. Economic development means more than just increasing the production of goods and services. In addition to the growth per capita income, economic development means a wide range of qualitative changes, as well as fundamental structural changes in the economy.

*Economic development of society* is a multidisciplinary process involving economic growth, structural changes in the economy, improving the environment and quality of population's life. There are various models of economic development (the German model, the United States, China, South-East Asian, Japan, Uzbekistan and other countries). But in all their diversity and national peculiarities, there are common patterns and parameters characterizing this process.

In general, the economic development of society - a controversial and difficult to measure process. It is characterized by irregularity, including periods of growth and recession, quantitative and qualitative changes in the economy, both positive and negative trends.

In the twentieth century, many theorists considered the development process as a series of successive stages of economic growth, which any country should go through. They believed that the increasing of total production (for example, growth of gross domestic product per capita) increases the overall welfare of the population. In the basis of this assumption was in idea that production generates income, and higher incomes, in turn, increase the financial or economic well-being. Namely such approaches underlie in the basis of interpretations of economy development.

The most clearly it was reflected in the book of U.U. Rostow<sup>1</sup> "The stages of economic growth" (1961). According to the concept of W.W.Rostow, the basis of economic growth and historical society's transition from one stage to another is based on the following basic fundamental differences:

- sectoral structure of the economy;
- the level of technological development;
- the accumulated value in the national income (savings rate);
- the structure and level of consumption.

W.W.Rostow identified five major stages of development (Table 1.1):

1. *Traditional society* - primitive and stagnant agricultural production with the use of hand techniques, hierarchical social structure, the power of landowners, "before Newton" level of science and technology. This stage is characterized with limited abilities of the productive forces, falling of income due to low rates of economic growth on the one hand, and a large birth - on the other, the subsequent stabilization of population and income. At this stage, there is no almost any condition for the expanded reproduction of national product.

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<sup>1</sup> **Walt Whitman Rostow** (*Walt Whitman Rostow*, 1916-2003) — American economist, developed the theory of post industrial society. Main work: *The Process of Economic Growth*, 1960.

**Table 1.1**

**The stages of economic growth according to W.W.Rostow<sup>1</sup>**

Indicators	Basic types of economic development (technological way)				
	Traditional society	Transition society	«Take off»	«Maturity»	Era of «high mass consumption»
Dominating period	1770-1830	1830-1880	1880-1930	1930-1980	1980s - ....
Key factors of production	Textile machinery	Steam engine	Electric engine, steel	Combustion engine, oil	Micro electronics
Leading section	Textile industry	Machinery, coal industry	Electrical appliances-technics, production and steel rolling	Car production, mining and oil refining	Electronic industry, software
State -leader	Great Britain, France	Great Britain, France	Germany, Great Britain	USA, Western Europe, Japan	Japan, USA, Western Europe

2. *Transitional society* or "preparing for take-off" - create the preconditions for intensive acceleration of rates of economic growth: in the production new technological discoveries are applied, investments are increased, "new type of entrepreneurial people" appear, the centralized state arise. At this stage, it is seen the economic growth due to the fact that the introduction of scientific achievements in production, developing communication and international trade, increasing investments in agriculture and mining.

3. *"Take off"* - the period of the industrial revolution, leading to the increase of the share of capital accumulation (investment grow from 5.0 to 10.0% of national income) and a sharp economic growth (especially rapidly in the industry), a radical change in production methods. Especially this short but extremely dynamic phase is a key in the transition from pre-industrial to an industrial society.

4. *"Maturity"* - the rapid development of industry, further enhancing the level of investment (up to 20.0% of national income), the widespread introduction

<sup>1</sup> Hess P., Ross C. Economic Development: Theories, Evidence and Policies. - Philadelphia etc., 1997. – P. 98.

of science and technology, the growth of the urban population to 60,0-90,0%, increasing the share of skilled labor;

5. The era of "*high mass consumption*" - the major problems of society is the problems of consumption (not production, as before), so the main sectors of the economy are the service industry and production of consumer goods, there are the new middle class and the "welfare state"<sup>1</sup>

W.W.Rostow in his later work, "Politics and the stage of growth" (1971) added to these five stages the sixth - the stage of "searching life quality" when spiritual development of human is moved in the forefront. He believed that even the way of development is the same for all countries, but the passage of stages bears more or less individual character. Behind in the development of the experience of advanced countries borrow and have a chance to catch up or even overtake them. For example, while in the U.S. "off" industry occurred about half a century later than in the UK, but the phase of "high mass consumption" America came a few decades before the United Kingdom.

And in the second half of the XX century, the most dynamically developing region is Asia. In this period of high economic development results achieved by Japan, followed by China and the newly industrialized countries of Southeast Asia. In these states, the GDP growth rate is almost twice surpassed those of developed countries, resulting in a share of the latter in the world economy declined from 63.0% to 52.7%, while the share of developing countries increased from 21.7% to 31.4%.

The theory of stage growth represented a significant step forward in the explanation of the historical process of human development, but it also has some disadvantages. The main among them is the fact that this concept of development is still identified with high growth rates. Profound social, institutional changes are in the shadow, and the fore the ratio of investment and growth rates of gross domestic product. Besides, the process of highlighting stages is far from obvious.

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<sup>1</sup> Rostow W.W. The Process of Economic Growth. 2 ed. - Oxford, 1930. - P.319.

In the 70-ies of XX century followers of neo-classical economic theory attempted to create own concept of modernization in contrast to well known systems of economic growth. The approach of representative of this school is in the proof that it is necessary for economic modernization to start the process of redistribution of resources from the agricultural sector to industrial. And at the same time. It is necessary to solve:

firstly, the problem of accumulation (i.e., savings mobilization and turning them into investments);

secondly, employment (i.e., withdrawal of labor force from labor abundant sphere and shift it to labor-insufficient).

Therefore modernization is considered, first of all, as a way of redistributing material and labor resources, as the exchange between sectors: reducing less productive sector and the growth of more productive<sup>1</sup>.

Variety of historical and geographical conditions and the development of various countries, the combination of material and financial resources which they have, do not allow to assess the level of their economic development by a single indicator. For these purposes there is a whole system of indicators, among which are primarily the following:

- the total amount of real GDP;
- GDP/GNP per capita;
- sectoral structure of the economy;
- production of the main kinds of products per capita;
- level and quality of life;
- indicators of economic efficiency.

*Gross domestic product (GDP)* - is one of the most important macroeconomic indicators expressing the market value of all final goods and services (which offered for direct consumption) produced within year in all sectors of economy in the state for consumption, export and storage, regardless of

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<sup>1</sup> Fell A., Pauw D. Analysis of the Open Dualistic Economy. An Application to the Philippine. - Washington, 1996.P.46.

ethnicity factors of used productive factors. First time this concept was proposed in 1934 by Simon Kuznets.

*Nominal (absolute) GDP* - is expressed in current prices of this year.

*Real (with adjustment for inflation) GDP* - is expressed in prices of the previous or any other base year. Real GDP takes into account at which level real GDP growth is determined by the real growth of production, but not by increasing prices.

GDP can be expressed both in the national currency and according to purchasing power parity (PPP) for more accurate international comparisons.

*Purchasing power parity* - the ratio of two or more currency, currencies of different countries, installed on their purchasing power in relation to a particular set of goods and services. The theory of purchasing power parity was formulated by Gustav Cassel<sup>1</sup>. According to this theory, the natural definition of exchange rates is a value corresponding to the purchasing power parity.

Thus, if the exchange currency rate A to B exceeds the parity value, it becomes profitable to buy goods in country B and export them to A. This increases the supply of goods in country A, the demand for goods in country B, the demand for the currency of country B and supply of currency in country A leads to the return of rates to parity ratio.

For example, if the unit price in Uzbekistan 4,000 sums, and in the U.S. - 2 USD, then the sum rate to the U.S. dollar should be 2,000 sums per dollar. If the course is 1750 sums per dollar, in this case buying goods in Russia (for 4000), selling in the U.S. (for 2 USD) and exchanging 2 USD to 3500 sums at the current rate on each such transaction it is possible to earn income 500 sums per unit of goods. Accordingly, the prices of goods in the U.S. will reduce, the price of goods in Uzbekistan - rise and the ratio of dollar sum - reduce. As a result, equilibrium will be reached at a new level of prices and the exchange rate.

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<sup>1</sup> **Karl Gustav Cassel** (*Karl Gustav Cassel*, 1866-1945) — Sweden economist, representative of Stockholm's school. Main works: *Theoretische Sozialökonomie*, 1918, *Fundamental ideas of economic sciences* (Fundamental Thoughts in Economics, 1925).



Since the functioning model of purchasing power parity is possible only in conditions of free movement of goods and money, in practice, exchange rates may significantly deviate from parity (more than customs duties, import and export restrictions, transportation costs, the greater the discrepancy between the nominal exchange rate and parity value). It is necessary to take into account the fact that the demand for a particular currency at the exchange depends on many other factors.

GDP is calculated by three methods:

Revenue:  $GDP = National\ Income + depreciation + indirect\ taxes - subsidies - net\ factor\ income\ from\ abroad$ . This formula describes the GDP income in the UN System of National Accounts;

expenditure:  $GDP = Final\ consumption + Gross\ capital\ formation$  (investment in a company: purchasing machinery, equipment, inventory, production site)) + Government spending + Exports - Imports.

Final consumption expenditure includes the cost to meet the end needs of individuals or society, produced by the following institutional sectors:

- household sector;
- sector of authorities;
- sector of private non-profit institutions serving households.

In present GDP is calculated as the sum of added value generated in the country, under the assumption that it is created both in production and in service. And this added value is estimated as the difference between the income of the enterprise and material costs and does not include indirect taxes paid from the product (service). As a result, overall GDP differs from the total added value, fixed in the spheres of production and services for the amount of net indirect taxes (indirect taxes deducting subsidies provided by the state to business).

GDP reflects the current situation of the country in terms of desirability of directing investments into its economy.

*A gross national product (GNP)* - one of the most common generalizing macroeconomic indicators, representing the calculated value at market prices produced by a country during the year end (finished) product. GNP includes the

value of the product produced in the country itself and abroad using the factors of production belonging to this country.

*The production of GDP and GNP per capita* is a leading indicator of economic development. GDP per capita determines the level of economic development. But sectoral structure of production has considerable importance, the quality of manufacturing products, the efficiency of material and energy consumption per production unit.

According to the opinion of scientists, GDP, including GDP per capita, is not an ideal indicator of the economy development, as this indicator takes into account only the amount of income and expenses to improve or stabilize the life quality, however it is impossible to know using this parameter the distribution of income or expenditures per capita.

*The national state income* is equal to gross national product minus amortized deductions (accumulated depreciation) and indirect taxes. On the other hand, national income can be defined as the sum of all income for the year in the form of wages, industrial and commercial profit, interest on capital and land rent.

National income is one of the most important general indicators of economic development. There are gross national incomes until 1993 was called the gross national product in the national economic accounting.

Gross national income excluding accumulated depreciation forms the net national income (formerly called net national product). The main difference between the national income of the gross domestic product is that national income - a parameter of income and represents the sum of primary incomes for all sectors of the economy, while the gross added value and gross domestic product are considered as indicators of production.

The definition "gross national income" and "net national income" better reflect the essence of these indicators related to income category, and not with the production of the product. Typically, the balance of primary incomes received and transmitted abroad in countries with developed economies is positive, and in developing countries - negative. Therefore, in developed countries gross national income more

than the gross domestic product, while in developing countries - less. This is because developed countries as richer increasingly provide financial and material resources and receive income from developing countries for their use.

Indicators of the level and quality of life are called to reflect the degree of socio-economic relations in the country. These indicators can be divided into quantitative and qualitative.

As an integral indicator of the level and quality of life at different times it is proposed to use:

- national income per capita;
- the proportion of expenditure on food in total household expenditure;
- the relative mortality rate, defined as the ratio of the number of deaths of persons aged 50 years and older to the total number of deaths;
- the average life expectancy of the population;
- indicator of free time.

International system of indicators that reflects the life quality of the population, was developed by the UN in 1978 and includes 12 major groups of indicators:

- demographic characteristics of the population (fertility, mortality, morbidity, life expectancy, etc.);
- sanitary living conditions;
- food consumption;
- housing conditions and provision with subsistence welfares of durable application (car, refrigerator, TV, etc.);
- education and culture;
- employment and working conditions;
- income and expenditure;
- cost of living and consumer prices;
- vehicles;
- organization of leisure, physical education and sport;
- social security;

- human freedom.

In addition to these groups, the UN Statistical Commission allocated a general section covering a range of informative indicators, required for assessing the life quality, but which are not, according to UN experts, direct characteristics.

The following indicators are included:

- national income, GDP per capita and average annual growth rate;
- amount and types of social services;
- expenses for private household consumption, their structure and the average annual growth rate, population density;
- public transport service;
- work communications, press media, etc.

The social measurement of economic development has become so important that it became an integral part of many programs and political formations and the frame of national economic development models. Under the influence of new trends major changes occurred in the social policy of the state. And this, in turn, became the basis for conclusions about the formation of the "social state", "welfare state". Such turn in policy of most countries was mostly due to the role that the human factor, human knowledge, information began to play in the development of social production.

The policy of "social state" was a response to the demand of the time and led to fundamental changes in the social sphere, including the adoption of programs to achieve a high standard of living by creating a state system of education, health, housing and social welfare programs, regulating the minimum size wages, etc. Moreover, these changes were so significant that many are talking about the transformation of market capitalistic economy to a qualitatively new state.

## **1.2. Economic growth and its measurement**

Under economic growth, it is understood long-term changes in real national output based on the positive dynamics of the gross national product.

Economic growth means:

- growth of aggregate real product in the state;
- increase of real income per capita;
- increase of real income per worker.

The criterion of economic growth is real GDP growth rate for the period t.

The real GDP growth rate is calculated using the following formula:

$$Y_t = (Y_t - Y_{t-1}) : Y_{t-1},$$

where:  $Y_t$  - GDP for the period t;

$Y_{t-1}$  - GDP for the previous period.

The following factors influence on economic growth and its rate:

- physical capital (or just capital) - is stock of equipment, buildings and structures that used in production of goods and services. Let's note that physical capital is itself a result of manufacturing process. The more advanced and modern it is, the more products we can get (including investment, i.e. new equipment) and services can be produced using it.

- human capital - is the knowledge and work skills which workers receive in process of learning (school, college, university, vocational training courses and training) and in the course of working activity. Note that human capital, as well as physical capital, is also the result of production processes and improves abilities of society to produce new goods and services.

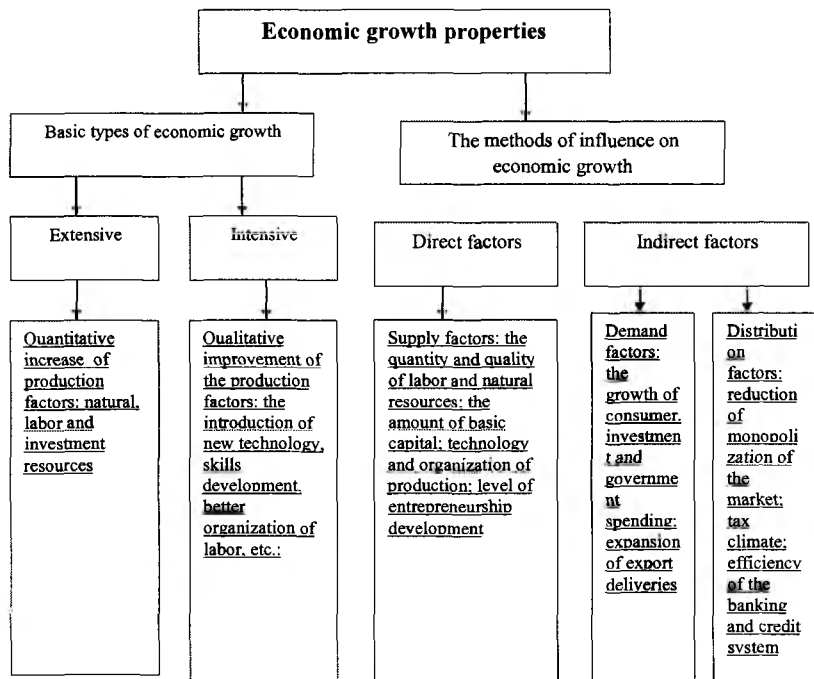
- natural resources - these factors are provided by nature, such as land, rivers and minerals.

The natural resources are divided into reproducible and irreproducible. An example of reproducible resources can be forest resources (instead of cut trees it is possible to plant new ones). The irreproducible resources is oil, coal, iron ore, etc., for the formation of which in natural conditions it is necessary thousands and even millions years. Even the natural resources - very important factor of economic prosperity, but their presence is not the main condition for high growth and high economic efficiency.

Economic growth can be characterized as the economy development during the given period, measured by growth rate of real GDP amount or national income

or rates of increasing these indicators per capita. The first way to measure growth is generally used in assessing the rate of expansion of the economic potential of the country, the second - in the analysis of welfare or comparing living standards in different countries and regions. Currently the second approach to measuring economic growth prevails, i.e. such development of the national economy, in which the rate of increase in real national income exceeds the rate of population growth.

The economy's ability to growth depends on several factors, including the phenomena and processes that determine the pace and extent of long-term increase in real output, opportunities to improve efficiency and quality of growth. By the type of methods of influence on economic growth it is distinguished direct and indirect factors (Fig. 1.1).



**Fig. 1.1. Properties of economic growth**

*Direct* are considered the factors that make growth possible physically.

This group includes *the supply factors*:

- quantity and quality of human resources;
- the quantity and quality of natural resources;
- volume of fixed capital;
- technology and organization of production;
- level of development of entrepreneurial skills in society.

*Indirect factors* - are the conditions that allow to realize the existing society opportunities for economic growth. Such conditions are created by factors of supply and distribution. At the same time demand factors are:

- growth of consumer, investment and government spending;
- increasing export supplies.

*Distribution factors* are:

- reduction the degree of market monopolization;
- tax climate in the economy;
- effectiveness of credit and banking system;
- possibility of productive resource redistribution of economy;
- current system of income distribution.

The impact of these factors on the economy determines the type of economic growth, by which is meant the impact on economic growth of quantitative and qualitative variables.

There are two basic types of economic growth:

1. *Extensive*: economic growth is carried out thanks to a quantitative increase of production factors. That is, society uses more natural, labor and investment resources and thereby receives the increase in national product.

2. *Intensive*: economic growth is performed at the expense of qualitative improvement of production factors and their effective use. Increase in the national product is a result of the introduction of new technology, improving workforce skills, better work, more optimal reallocation of resources between sectors of the economy, etc.

In reality, it is impossible to meet any extensive or intensive economic growth in the "pure" form. It is usually noted about predominantly the intensive or extensive economic growth mainly depending on what factors - intensive or extensive - dominated.

Since the appearance of economic science, the problem of economic growth was namely in the center of its attention. Resolving of these factors would mean the searches of such factors of economy development that would ensure *increasing living standards at a constant population growth*.

Known American economist *Simon Kuznets*, won the Nobel Prize in 1971 for research on the economic growth history in developed countries, and considered economic growth as "*long-term increase in the ability of the economy to provide various needs of the population with the help of more efficient technologies and their respective institutional and ideological changes*"<sup>1</sup>. According to Kuznets, there - are three major signs of economic growth:

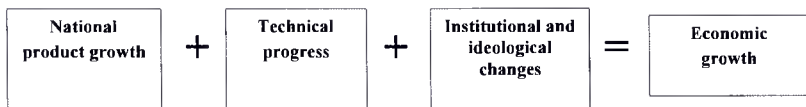
- continuous growth of the national product, as a result of which it is possible to meet all the needs of larger volume;
- technological progress as a basis for growth, and it's necessary but not a sufficient condition;
- institutional, ideological and behavioral changes required for more fully realization the potential of growth (Fig. 1.2).



**Simon Smith Kuznets**; at born Semyon Abramovich Kuznets, April 30 1901, Pinsk, Russia — July 8 1985, Cambridge, USA) — Nobel Prize in economics 1971 "for empirically justified interpretation of economic growth which has led to a new and deeper understanding of the economic and social structures and the overall development process". Main books: (Population Redistribution and Economic Growth. United States, 1870—1950, 1957—1964, together with D. Thomas), "Economic Growth of Nations: Total Output and Production Structure", 1971; "Population, Capital and Growth", 1973.

<sup>1</sup> *Effective economic growth. theory and practice: Textbook for students of economic institutions* / Edited by Chechelev T. V. - M.: Publishing House «Ekzamen», 2003. - P.320.

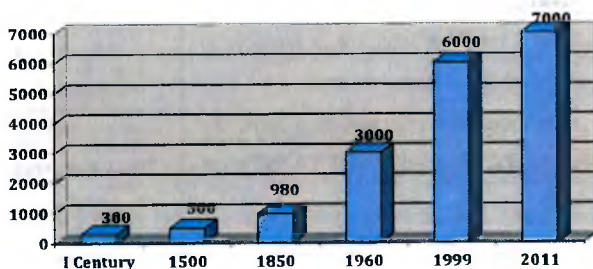




**Fig. 1.2. Economic growth according to S. Kuznets**

It is well known that human requirements are endless: just human satisfy one requirement, at the same time other ones appear, and this situation is endless. The essence of the problem of requirements expanding is that tend to unlimited quantitative increase and qualitative renewal comes up against the limitations of economic opportunities. Extension of needs is possible only through the expansion of production of material welfare.

However, it should be noted that the population of the Earth is steadily growing - it took 10 thousand years for humanity to reach population close to 1.0 billion (it was in 1850). The population 2.0 billion was achieved for 80 years (1930). Doubling this number was only for 45 years (1975). By the mid of 2011 the world population is 7.0 billion people, and by 2050, the population is forecast to reach 8.9 billion people (Fig. 1.3).



**Fig. 1.3. The dynamics of growth of the world population (million people).**

It is clear, that this population growth started in the mid XIX century should be accompanied with anticipatory growth of aggregate product, satisfying individual and social needs of people.

American economists while exploring the history of economic growth starting from year 500 came to the curious results. Over the past 1500 years, it is clearly seen 4 periods in which it was defined definite relation between population growth and the growth of output per person. According to research of scientists, the production per capita has not increased for 1000 years (500-1500 years) and the population during this period grew at an average annual rate of 0.1%. Some increase of parameters was observed for the next three centuries (until 1820), but their growth rate remained very low. Sharp jump occurred at the stage of modern capitalism (1820-1980) when the growth rate of output per capita rose to 1.6% per year, and the population increase annually by about 1.0%.

It seems that countries with large population and having huge reserve of free labor force, can estimate high economic growth. In fact, most countries with large populations have very low economic growth, often lower than the rate of natural population growth.

The fact is that economic growth is not only natural-material, but also the financial aspect. To involve the unemployed in the production working population it is necessary to create new jobs, and to do this investment are required. The availability of investments is subject to the accumulation of capital, the main feature of which is the choice between present and future consumption, i.e. the need to limit oneself now to get something more in future.

Thus, economic growth depends on the ratio between the increase of capital and labor force growth, i.e. it means that it depend on how capital endowment has been changed. If capital grows faster than the population, the capital endowment per employee will increase as the basis of production efficiency and per capita income. If population growth outstrips capital gains, the new employees entering the workforce will be provided with less capital, which may cause the reduction of productivity, the consequence will be slowdown or negative growth of domestic

product. So the economy's ability to grow depends on the pace of capital accumulation, which source is savings.

*Savings, accumulations* - part of money income that people accumulate for future purchases, to satisfy future needs; is the difference between disposable income and consumer spending. Savings, in turn, depend on the level of income and *consumption*.

*Consumption* - usage, consumption, application of products, things, goods, products and services to satisfy needs.

That is why; the theories of economic growth investigate the optimal level of savings, providing high level of capital accumulation, and hence stable and balanced economic growth.

Usually there are following theories of economic growth:

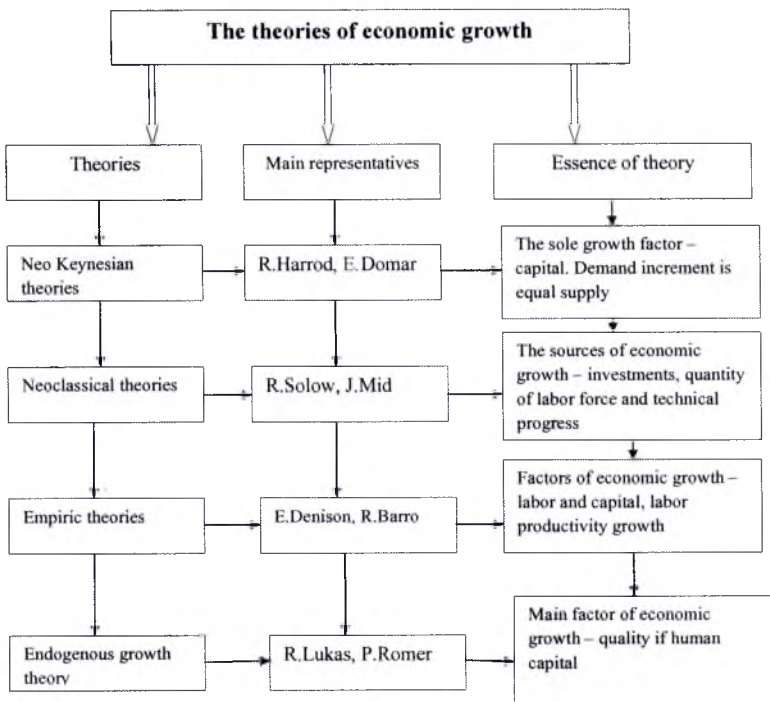
- neo-Keynesian theory of economic growth;
- neoclassical growth theory;
- empirical theory of economic growth;
- new endogenous growth theory (Fig. 1.4).

New Keynesian single-factor model for determining the rate of economic growth was proposed by British economist Roy Harrod and American economist Evsey Domar<sup>1</sup>. In their model, which is usually called as *Harrod-Domar model*, only the capital is considered as just single growth factor. This factor as though synthesizes the functioning of all other factors. It is assumed that all of the factors involved: the increase in demand is equal to supply growth.

According to the authors, in the case of increasing the productivity of capital intensity factor, i.e. ratio of capital to output, will not change significantly. And both the ratio "capital-labor" and the ratio of output to labor costs will increase. Therefore index of one factor model - the ratio of "capital -output" is almost remain the same.

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<sup>1</sup>**Domar Evsey David** (*Evsey Domar*, 1914—1997) — American economist. Representative of Neokeynesian economic school. Main work: *Essays on the theory of economic growth* (1957).



**Fig. 1.4. Theory of Economic Growth**

Harrod-Domar model serves as an auxiliary tool in considering the problem of economic growth in the long-term period. The model helps to clarify the nature of the intercommunication in the dynamics, presenting them in the most simple and understandable form. Model formula:

$$G = S:C,$$

where G - the desired rate of economic growth;

C - ratio "capital -output" (factor of capital intensity);

S - the share of savings in national income.

The greater the amount of net savings (S), the greater the amount of investment, and hence the higher the rate of growth. The higher capital intensity (C

- capital ratio to the amount of the produced goods), the lower the rate of economic growth .

Using data about the main economic parameters, it is possible to forecast the expected economic growth in the future. Of course, the actual rates will differ. But the difference will not be so significant if during forecast period the constant share of savings will be kept in the national income  $S$  and constant capital factor  $C$ . At high rates of economic growth the factor of capital intensity will "urge" this growth. In the conditions of depression, reducing growth rates

in order to support the desired rate of investment will be missed.

First neoclassical growth theory appeared on the border of the 1950s - 1960s, when firstly it is necessary to solve the problem of achieving potential possible growth rates not only at the expense of unused capacities and through the introduction of new technology, increasing productivity and improving the organization of production.

Methodological basis of theories of this trend representatives (American economist *Robert Solow* and British economist *James Meade*, etc.) is the classical theory of production factors, which interpret labor, capital and land as independent



*Robert Merton Solow*, was born August 23, 1924 z., New-York, USA) — Nobel prize winner 1987. «for fundamental studies in the field of economic growth theory. Main works: *Policy of Full Employment*, 1962; *The Economic of Resources and the Resources of Economics*, 1974.



*James Edward Meade*.( James Meade, June 23, 1907, Swanage — December 22, 1995, Cambridge, England) — Nobel prize 1977. "for pioneering contributions to the theory of international trade and international capital movements".

Main books:  
«Principles of Political Economy, 1965 — 1976;  
«Stagflation, 1982 — 83.

factors of forming social product, and *marginal productivity theory*, according to which income received by the owners of production factors are determined by the marginal products of these factors.

First, this theory was outlined in article of R. Solow "Contribution to the theory of economic growth" (1956) and then developed in "Technical progress and aggregate production function" (1957). In 1987, for the development the author was awarded the Nobel Prize in economics.

R. Solow asserted that a qualitative improvement in technology, as well as worker classification is much more important direct quantitative increasing the number of equipment and factories. It shows that the direction of main resources for the development of research and designing activities can more quickly lead to economic growth.

R. Solow theory can reveal the relationship of three sources of economic growth - *investment, labor force and technical progress*. And the savings rate (savings) - a key factor. Higher savings rate provides greater margin of capital, i.e. investment increment and hence higher production level.

R. Solow using the concept of "substitution of capital for labor" because if the savings rate is high enough, capital intensity increases, i.e. the amount of real capital per worker. However, when the savings rate is low, the capital becomes relatively more expensive, and capital intensity, determined by the prices for production factors of will reduce. If we consider the longer period of time at a given constant technology (i.e. without technical progress), capital, labor and output according to conclusion of scientist have the same growth rate. By this it is proved that the increase of saving part of income cannot be itself a source of constant increase of the economic growth rate.

The economy with higher rate of savings can certainly achieve more output per capita and higher real wages. However, in the absence of technical progress growth rate will remain the same, despite the increased savings rate and will be equal to the growth of labor supply.

Based on this, the scientist concluded that economic growth considered over a long period of time does not depend on the growth rate of investment. According to his opinion, namely technological development becomes fundamental prerequisite for economic growth.

In theory of R. Solow technical progress - the only condition of continuous growth in living standards, measured by per capita income. Moreover, he proposed formula of "golden rule of accumulation", which determines the optimal level of capital intensity. Equilibrium economic growth is compatible with various standards of saving, *the optimal* will be considered exactly that norm, which provides economic growth with a *maximum level* of consumption. In comparison to traditional approaches the highest consumption is determined not by large amount of capital, but its optimum size and economic efficiency - capital return per unit of product (marginal productivity).

Thus, the scientist identifies technological progress as the sole basis for sustainable growth. He found that from 1909 to 1949 in the United States more than 80.0% of GDP growth was due to technical progress, i.e. intensive factors, and not by the cost of labor and capital.

A large contribution to the formation of modern theories of economic growth have made *empirical researches* aimed at studying the influence of various factors on economic growth. One of the largest researchers of measurement the contribution of different factors in economic growth is an American economist *Edward Denison*<sup>1</sup>. The scientist based on the analysis of extensive statistical data proved that the increasing use of labor and capital, technological innovations could provide at best only half of the increase of the national product produced in the United States in the XX century.

According to calculations of E. Denison, the economy of Western European countries between 1948 and 1969, the 2/3 grew namely because of the increasing productivity. Moreover, the share of formation in the increment of national income

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<sup>1</sup> **Edward Denison** (*Edward F. Denison*, 1915-1992) — American economist. Main works: *Accounting for United States Economic Growth, 1929-69*, 1974, *Accounting for Slower Economic Growth: The United States in the 1970's*, 1979.

in the European countries and the United States reached from 12.0 to 29.0%. To measure the impact of human factors the economist took into account not only workforce, but also such indicators as the dependence of the impact of labor by age and sex of worker, level of education and training.

According to opinion of the American economist, the impact of labor productivity on growth occurs as a result of the following processes:

- expansion of technological knowledge or improvement of the organization of production;
- "make up leeway", i.e., the transfer applied knowledge from the highly developed countries to lagging countries, allowing them to approach to the level of optimal economic growth;
- improvement of placement physical factors of production and their application in those sectors and regions where the highest return is achieved;
- increase economy size, followed by the development of specialization in production and increase of national markets.

More recent empirical studies highlights such factors of economic growth:

- improving quality of human capital;
- efficiency of state institutions;
- favorable investment climate;
- flexible strategy of macroeconomic regulation;
- depth of economic reforms (non-state ownership share in GDP, indicators of access and liberalization of economy);
- reducing market distortions of resource distribution.



*Robert Emerson Lucas Jr.*, (Robert Emerson Lucas, Jr., was born September 15 1937, Yakima, USA) — Nobel Prize 1995 «for the development and change of the hypothesis of rational expectations, changing the foundations of microeconomic analysis and perspective on the economic analysis ».

Main books: «Expectations and the Neutrality of Money»; «Methods and Problems in Business Cycle Theory»; «Studies in Business-Cycle Theory».



The theories of representatives of endogenous growth (American economists P. Romer, R. Lukas etc.) the technological progress is not the only possible cause of economic growth in the long term period. So, scientists proposed a hypothesis about endogenous nature of major production and technological innovations based on investments in technological progress and human capital. It is asserted that the value of economic growth depends on the following factors:

- quality of human capital, investments in human development (education, health, etc.);
- creating necessary conditions and prerequisites for protection of intellectual property rights under imperfect competition;
- state support of science and technology development;
- creating favorable investment climate and borrowing new technologies.

According to P. Romer<sup>1</sup> "there is an exchange between consumption today and knowledge that can be used for the expansion of consumption tomorrow". He stated this idea as "technology of research", which produces "knowledge" of past consumption. Thus, the rate of economic growth in the theory of P. Romer is in direct dependence from the value of human capital, gathered in the sphere of getting new knowledge. In reality this means that the sphere of science researches affects the economy directly through not only applied ideas and developments. The existence itself is necessary (but not sufficient) condition for economic growth because it provides human capital accumulation. This theory implies that countries with a large volume of accumulated human capital will have higher rates of economic growth. Consequently, the development of free international trade will also contribute to increasing growth rates, as the exchange of products expands the boundaries of the economic system and thus leads to increasing total human capital.

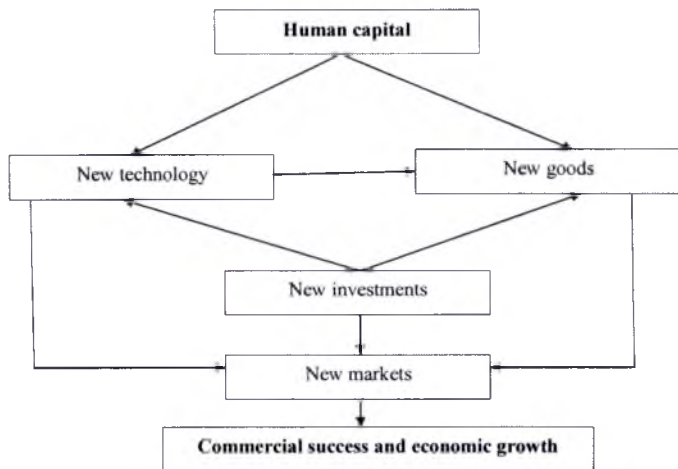
And in theory of R. Lucas human capital accumulation - an active economic process, requiring certain resources and is the cause of alternative expenses. The

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<sup>1</sup> **Paul Michael Romer** (*Paul Michael Romer*, was born in 1955) — American economist. Main works: *New Goods, Old Theory, and the Welfare Costs of Trade Restrictions*, 1994, *Science, Economic Growth and Public Policy*, 1996.

scientist suggests that people can choose one of two ways of time usage: to participate in current production or accumulate human capital. In reality, the distribution of time between these alternative pathways determines the rate of economic growth. For example, reduction of time required to manufacture products, leads to reduction of the current product output, while human investment accelerates, and thus the growth of product output increases.

The theory of endogenous growth justified the link between mechanisms of economic growth and the processes of obtaining and accumulation of new knowledge, then materialized in technological innovations (Fig. 1.5).



**Fig. 1.5. The relationship of human capital and economic growth in endogenous growth theory <sup>1</sup>.**

### **1.3. Evolution of the role of human factor in theories of economic growth**

The endogenous growth theory, in fact, is the scientific basis of human development. These theories prove that human is the driving force of economic growth and a mean of achieving prosperity. Based on this that the best strategy for

<sup>1</sup> Human development: Textbook / Collection of authors. – 2nd edition. – T.: UMED, UNDP, 2011. – p.125.

improving national income - is not the accumulation but human capital, in other words, investment in human.

However, there is a fundamental difference between the theory of endogenous growth and human development concept, which is concluded that people - it is not just an effective mean, but also the purpose of development.

Economic science interprets labor as reasonable human activity. The work cannot be done without the work ability and the ability to work is realized only in the labor process. The labor force is the potential ability to work and work - functioning ability, functioning labor force.

In the XVIII century in France it was formed Physiocrats school whose supporters protecting farmers believed that the development of agriculture - the main route to go out severe crisis for the country.

*Physiocrats* (from the Greek «physis» - nature and «uratos» - power) thought that labor is productive which creates "pure product". The founder of this theory, the first who determined signs of productive labor F. Quesnay<sup>1</sup> argued "in reality nothing can bring income except for the land and water"<sup>2</sup>. He divided society into three classes: the productive, the owner and barren. By F. Quesnay:

- productive - those who cultivate land, directly engaged in agriculture;
- owner - are kings, landowners, church, i.e. those who possesses land;
- barren - all others, including workers, capitalists and merchants .

The supporters of the Physiocrats argued that the source of "pure product", i.e. everything left over production expenses is a land, and more precious - the forces of nature. The farmers receive from the land more than they invest. The workers only recycle what it was received from the land, nature and create as much as they consume.

The founder of classical school of economic theory Adam Smith<sup>3</sup> saw the source of increasing wealth in socially useful labor for the production of material goods. Therefore, only such work he attributed to productive: "The work of several

<sup>1</sup> **François Quesnay** (François Quesnay, 1694-1774) — famous French economist, founder of physiocrat's school.

<sup>2</sup> Quesnay F. Selected economic writings. — M.: Socekgiz, 1969. P.533.

<sup>3</sup> **Adam Smith** (Adam Smith, 1723-1790) — Scotland economist, one of the founders of modern economic theory. Main works: *Inquiry into the Nature and Causes of the Wealth of Nations* (1776).

respectable classes of society, similar to the work of domestic servants, does not produce value and is not fixed, and cannot be realized in any long-existing object or product, being able to be sold, which would continue to exist after cessation of labor and for which it is able to get objects or goods equal to the quantity of labor. For example, the emperor with all his officials and judicial officers, the whole army and navy are unproductive workers"<sup>1</sup>.

And J.S. Mill <sup>2</sup> proposed to reform bourgeois society by limiting the inequality of wealth: the transition from enterprises with hired labor to cooperative production associations whose capital is in the hands of the workers. "I don't consider the employee as wealth - he wrote - But his acquired ability that exists only as mean and generated by work, with good reason, I believe, comes to this category. The skill, energy and perseverance of workers of the country are considered also as wealth, as well as tools and machines»<sup>3</sup>.

The representative of the classical school of economics D. Ricardo<sup>4</sup> identified three social classes: landowners, owners of capital and workers, who, in his opinion, get their income, respectively, in the form of rent, profits and wages. According to him, the only source of value or price is labor of worker employed in production<sup>5</sup>.

Thus, the classics of economic school thought that the market system is able to provide full use of resources, including labor resources.

P. Drucker <sup>6</sup>, implementing the term "knowledge of workers", later asserted that in "knowledge society" the basic economic resource is already knowledge, not capital, natural resources or labor. Further he noted that "knowledge has become

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<sup>1</sup> Smith A. *Inquiry into the Nature and Causes of the Wealth of Nations*. - M.: Socekgiz, 1962. P.245.

<sup>2</sup> John Stuart Mill (*John Stuart Mill*, 1806-1873)— famous English thinker and economist. Main works: *Essays on some unsettled Questions in Political Economy* (1844).

<sup>3</sup> Mill J.S. *The basis of political economy*. T.1. -M.: Progress, 1980. - P.89.

<sup>4</sup> David Ricardo (*David Ricardo*, 1772(17720418) -1823) — English economist, classic of political economy. Main work: *The principles of political economy and taxes* (1817).

<sup>5</sup> Ricardo D. *Start of political economy and taxation assessor / Anthology of economic classics*. T.1. -M., 1993. P.409.

<sup>6</sup> Peter Ferdinand Drucker (*Peter Ferdinand Drucker*, 1909-2005) — American scientist, born in Austria; economist, one of the most influential theorists of management of the XX century, the author of the theory of the global market and the concept of "information workers." Wrote 39 books.

the key economic resource and the dominant - and perhaps even the only source of competitive advantage»<sup>1</sup>.

At the end of the XIX century the followers of classics, developing their views formed the direction of neoclassical economic theory. Its founder is considered A. Marshall<sup>2</sup>, professor at Cambridge University, who believed that the final controller of total demand is consumer demand and that this regulation is carried out automatically by the market. He believed the essential quality of the workforce. "Education allows many who could die in obscurity, to get an opportunity to expand their potential abilities - A. Marshall wrote. - And the economic benefits of one used industrial discovery is sufficient to cover the costs for education of the whole city, as one such new idea, such as the main invention of the Bessemer, provides the same increase of production capacity, as well as 100,000 people»<sup>3</sup>.

Labor process includes three main points:

- purposeful human activity, i.e. the labor itself;
- the subject of work, which work is aimed to;

However, the main condition of labor activity is availability of labor. Therefore: "Labor Economics - is socially organized dynamic system in which the process of labor force reproduction - its production (preparation, training, professional development, etc.), distribution, exchange and consumption, as well as be provided with conditions and interactions employee, means and objects of labor"<sup>4</sup>. Labor process includes three main points:

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<sup>1</sup> Drucker P. F. Post-Capitalist Society. — Oxford Butterworth: Heinemann, 1993. P. 271.

<sup>2</sup> Alfred Marshall (1842-1924) - British economist, representative of the Cambridge School of Economics, one of the founders of neo-classical economic science. Main works: The pure theory of foreign trade and the pure theory of domestic values. - L., 1879, (Principles of Economics, 1890-1891, Elements of the Economics of Industry, 1892, Industry and Trade, 1919), Money, Credit and Commerce, 1922.

<sup>3</sup> Marshall A. Principles of economics. - M.: Progress, 1993. P.294.

<sup>4</sup> Labor Economics: Labor Relations. Textbook. -M.: Ekzamen, 2006. P.9.

process of labor force reproduction - its production (preparation, training, professional development, etc.), distribution, exchange and consumption, as well as be provided with conditions and interactions employee, means and objects of labor"<sup>1</sup>.

More detailed characterization of the labor force was offered by B.M. Genkin: "As the labor force should be understood human's ability to work, i.e. combination of its physical and intellectual data that can be used in production. Practically labor force is characterized as a rule by health indicators, education and professionalism"<sup>2</sup>.

However, there are other approaches to the definition of the labor force. So R.J. Ehrenberg and R.S. Smith considered this concept from the position of the working population: "Under definition "labor force" it means workers over 16 years old and who has a job or, actively engaged in seeking work or who wait that, after firing the services will be required again»<sup>3</sup>.

The term "labor force" is mostly used to describe the following concepts:

- a combination of physical and spiritual abilities that are used in the production of goods and services;
- part of population employed or looking for job, as a synonym for the category of "economically active population";
- in total employees or personnel of economic entity.

There is a close relationship between human labor functions and quality, orientation, scale and level of development of human abilities.

The process of labor force formation (ability to work) or training of employee has been started at the school, and has been continued in college, high schools and universities in the training courses, internships, etc.

The process of distribution and exchange of labor force as a rule occurs first on the labor market with the participation of three subjects of labor relations -

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<sup>1</sup> Abdurakhmanov K.Kh., Sharifullina T.A. Economics and Sociology of labor: Textbook. - M: Russian Academy of Economics, 2002. P.6.

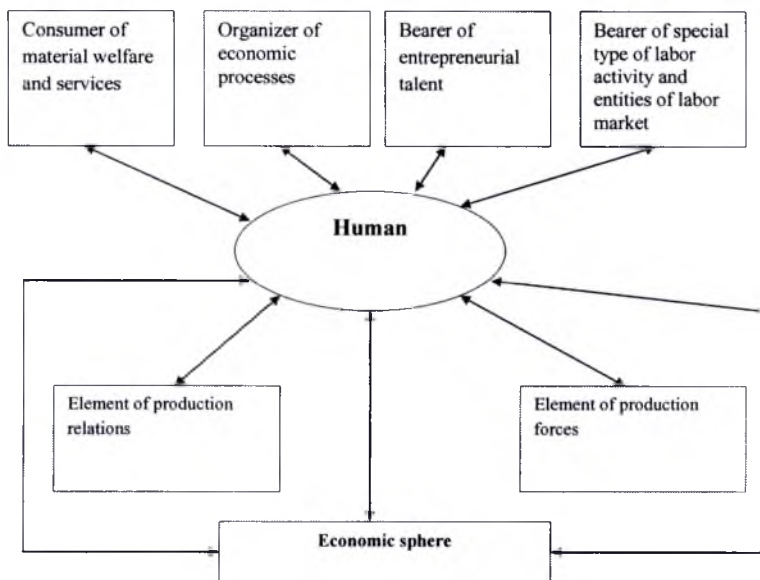
<sup>2</sup> Genkin B.M. Economics and Sociology of labor: textbook for high schools / 5th edition, supplemented. - M: Norma, 2005. C. 79.

<sup>3</sup> Ehrenberg R.G., Smith R.S. Modern Labor Economics: Theory and Public Policy. - M., 1996. P.34.

employee, employer, state, and secondly, directly at the enterprise (recruitment, rotation of employees, dismissal, etc.).

Consumption (usage) of labor force is performed directly at the workplace, in the labor process, production of specific socially useful product or services. In order worker began working activity, it is necessary to prepare corresponding conditions : provide working place, organize work and its protection, stimulating labor, social security, etc.

Human - thanks to his needs, forming the supply, demand and other economic parameters - is the subject of economic relations (Fig. 1.4).



**Fig.1.4. Human role in economic life**

As a result of a long process of development of ideas about man as an economic life, a number of concepts:

- *labor force* - is a carrier abilities and qualities that can be used productively in the labor process;

- *human resources* - the ability to aggregate labor of society;
- *labor potential* - a personalized labor, considered in the totality of its qualitative characteristics;
- *human factor* - is functioning labor, considered in the aggregate of its qualitative characteristics;
- *human capital* - is a set of existing human abilities and qualities of stocks used in the production of goods and services (Table 1.2).

**Table 1.2.**  
**Development of introduction about subject of economic life**

Category	Period of appearance	Imagination of human	Factors of appearance
Labor force	XIX c.	Human as a bearer of abilities and features, which can help productively used in labor process	Necessity in definition and accounting private factor of production
Labor resources	20-th of XX century	Human is as passive object of external management, planning and accounting unit	Necessity in measuring indicators of the process of labor force reproduction in conditions of centralized management of economy
Labor potential	70-80-th of XX century	Human is as a subject with own requirements and materials in the sphere of labor	Necessity in activation and effective usage of private factor abilities
Human factor	End of 80-th beginning of 90-th of XX century	Human - main driving force of social production, mean for raising of its efficiency.	Social-political conditions, necessity in increasing of personal factor feedback
Human capital	Beginning of 90-th of XX century	Human – object of most effective investments and subject transforming the aggregate of knowledge-skills for future implementation	Recognition of instrumental value of human and productive nature of the investment in human

Labor resources - able-bodied population of able-bodied age and working persons younger and older of working population.

Able-bodied population of able-bodied age - men from 16 to 60 years and women aged 16 to 55 years, except for non-working invalids of groups I and II and getting retirement pension on preferential terms.



Labor potential can be considered as related to the individual employee, and in relation to the labor collective, economic entity, sectors of the economy and society as a whole.

So, the labor potential of the business entity - the micro-level, is the ratio of various demographic, social, educational, professional and other characteristics of groups of workers and the relationship between them.

If mesolevel - labor potential of the region, the labor potential of the society - the macrolevel - by definition of K.Kh. Abdurakhmanov is aggregate of labor force of state, which accumulates qualitative and quantitative components of society potential<sup>1</sup>.

The studies of native scientists - for example, Abulkasymova Kh.P.<sup>2</sup>, labor potential is treated as a potential of all able-bodied citizens with physical abilities, knowledge, skills, and certain professions.

And D.N. Rakhimova especially emphasizes the importance of qualitative components of labor potential<sup>3</sup>.

The qualitative indicators of labor potential can be determined by the formula:

$$F(c) = c(c_1 + c_2 + c_3 + c_4 + c_5 + c_6 + c_7 + c_8 \dots c_n),$$

where:  $F(c)$  - a qualitative indicator of the labor potential;

$c_1$  - physical condition and health of the labor force;

$c_2$  - the level of education and awareness;

$c_3$  - qualifications and professional skills;

$c_4$  - entrepreneurial ability;

$c_5$  - life experience and skills;

$c_6$  - world view and mind;

$c_7$  - moral qualities;

$c_8$  - spiritual maturity.

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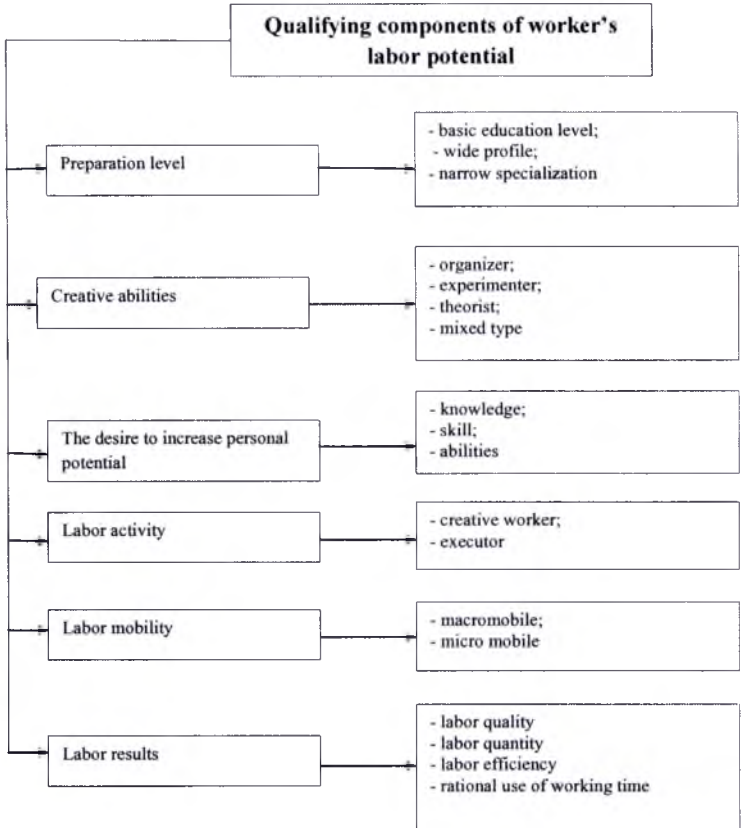
<sup>1</sup> Abdurakhmanov K. K. Labor economy. –T.: Mekhnat, 2009.

<sup>2</sup> Abdulkosimov Kh. P. Economic reforms in Uzbekistan. –T.: Academy. 2008.

<sup>3</sup> Rakhimov D.N. Employment potential of Uzbekistan in Transition: Development and effective use. –T.: TashNU, 1998. P.21.

The original structure forming unit of labor potential is qualifying components of employee (Fig. 1.5). The main qualifying characteristics of single employee are:

- level of training;
- creative abilities;



**Fig. 1.5. Qualifying components of labor potential of worker.**

The essence of qualitative indicators of labor potential in competitiveness of worker as the economic basis of effective work. Quality indicators are influenced

by changing socio-economic conditions, innovative processes occurring in production. The aggregate of occurring transformations can be considered as a unity of three components: industrial, institutional and informational.

The first of them is under the direct influence of technical progress and manifested primarily in a change of the mean of production and corresponding change in the quality requirements of the labor force.

The second component reflects the aggregate of status changes in the position of workers who also requires changes in the system of labor force reproduction.

Third - forms the basis for decision-making related to the transformations in the economy and in the labor force.

Communication between components of transformation can be represented in another way:

- first - reflects the elements, which are transformed to achieve scientific and technological progress;
- second - shows the impact of capital-labor ratio on the skill levels;
- third - describes the aggregate of information sources and streams, most of which are equally essential for the development and production, and for the reproduction of the labor force.

The exposure to industrial component of the economy is to change using of means and objects of labor, which determines the need for timely provision of improvement the quality of labor force.

The exposure of institutional component is reflected in the appearance of new or critical transformation of the existing organizational structures of production management and corresponding forms of work organization and mechanisms of worker behaviors of the associated with primarily new types of activities.

The level of these changes can vary significantly depending on the level of innovative impact, as well as the existing management system, the organization of work and the organizational culture of a business entity.

The exposure of the information component associated with the appearance of new information sources, methods of transmission and processing. As it was noted by S.A. Dyatlov "Economic activity of people is inherently activities primarily informational. The products and results of the people economic activity, whether it's products, services, new technologies, methods of organization of labor and production, or new trained professionals - all of them all represent themselves (implemented or customized) scientific knowledge, i.e. processed in a certain way, fixed and encoded in integrated productive forces of society information"<sup>1</sup>.

The trends of development attests that it was began new stage of development of the productive forces in the world economy in the XXI century: the transition from industrial stage where large mechanized production dominated to post industrial, where the sphere of services, services, science, education, etc. will prevail. The production of material goods, of course, retains its significance, but its economic efficiency is highly dependent on the skilled personnel, new knowledge and technologies.

That is why human, his potential became the most valuable resource in post-industrial society, it is much more important than natural or accumulated welfare. Specially human factor determines the rates of economic development.

### ***Control questions***

- 1. List the main stages of social development, emphasized by W. Rostow.*
- 2. How GDP is estimated?*
- 3. What international system of indicators includes that reflect the quality of life, developed by the UN in 1978?*
- 4. Explained the main features of economic growth according to Kuznets.*
- 5. What the evolution of imagination on the subject of economic life is associated with?*

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<sup>1</sup> Dyatlov A. Economics of Education during the transition period. - St. Petersburg, 1995. P.81.

## CHAPTER 2. HUMAN DEVELOPMENT CONCEPT

### 2.1. Economic growth and human development

As it was noted above, the economic growth - is the long-term changes of real national output based on the positive dynamics of the gross national product. At the same time, economic growth is not an end in itself, and the ability to ensure human development. From this point of view, it is necessary to distinguish in particular the following criteria of the quality of economic growth:

- providing effective employment of labor resources;
- guarantee of people's livelihood;
- equitable distribution of income and resources;
- ensuring social cohesion and cooperation in society;
- respect for the rights, fundamental freedoms and legitimate interests;
- creating conditions for sustainable growth.

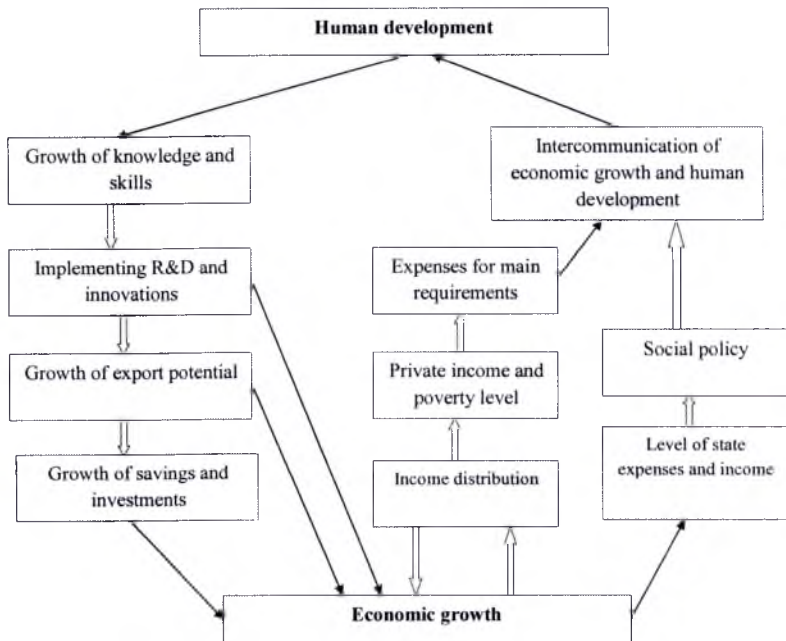
Economic growth means increased production of goods and services to meet the growing needs of people. There are four ways to create the desired relationship between economic growth and human development in the studies of Mahhub ul Haq:

- 1) increasing investment in human capital in order to implement human abilities and participation in the production and distribution of goods;
- 2) equitable distribution of national income and wealth. Where the distribution of income and wealth are unevenly, high GDP growth rate does not reflecting positively on people's lives;
- 3) implementation of state social policy;
- 4) people enhancing, especially women in all spheres of life. If people have a right to make their choice in political, social and economic spheres, the prospects for economic growth are more stable, persistent and take into account the interests of the people<sup>1</sup>.

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<sup>1</sup> Mahhub ul Haq, 1955, Reflections on Human Development, chapters 2 and 3, Oxford University Press.

According to the concept of human development, economic growth may ensure human development when the growth provides not only an increase in per capita income, but also allows you to have a sufficient level of public spending that are invested in the social sphere, and also is accompanied by a fair distribution of resources in the economy.



**Fig. 2.1. Intercommunication of economic growth and human development**

A steady growth in real national output depends on the development of industries of economy.

Countries in the world by the level of its development is usually divided into:

- *located on a pre-industrial stage of economic development*, where the main driving force of economic development is the agricultural sector;

- *located in the industrial stage of economic development*, where the basis is the growth of industrial production and scientific and technical progress;

- *located on the post-industrial stage of economic development*, where in the forefront knowledge-intensive industries, including information technology come out.

According to the theory of industrial society, the growth of the industrial sector in the initial stage is mainly provided at the account of the development of mass production. Scientific and technological progress stimulates the development of high-tech industries, and the mechanization and automation of production increase requirement to the qualification of employees. Disengaged personnel in this sector of the economy move to spheres of services and society gradually turns into a post-industrial.

In an industrial society, the structural changes in the industry effect on the nature of economic growth and human development. The experience of many countries shows that industrial development passes three main stages of structural transformations:

1. *Development of labor-intensive production*. This process involves, on the one hand, the low level of wage, which in turn has a negative impact on household income and human development. On the other hand - the increasing jobs stimulates employment. This is typical for many developing countries where consistently high population growth but science and technology are developed insufficiently. At the same time the prevalence of labor-intensive industries contributes to resolving problem of uniform distribution of human development.

2. *The development of capital-intensive production* provides higher wage and income, which expands the possibilities for human development. However, in this scenario the share of capital in the industries exceeds the share of the labor force, and this may adversely affect employment.

3. *Knowledge intensity of production* is characterized by high capital intensity. High productivity and profitability provides a significant increase of the human development potential.

Prominent Russian economist N.D. Kondratiev developed the concept of the cycles of the economic structure, rotational approximately each half century, and showed that the beginning of each cycle is marked by the active introduction of new knowledge, technologies and industries, i.e. vigorous activity, ensuring the creation, development and use of innovations.

According to this concept, the key points of development are:

- The first Industrial Revolution (1795 - 1845), which covered almost all major industries - spinning, weaving, chemical, metallurgical, etc.;
- Revolution of steam engines (1845 - 1895) - a revolution in the field of machine building;
- Revolution of electrical machines (1895 - 1945) - a revolution in the field of chemical and electrical industries.

Following the methodology of Kondratiev N.D. it is possible to trace the fourth cycle - scientific and technological revolution in the field of microelectronics and nuclear energy (1945 - 1995), and the fifth - the revolution in information technology (since the 2000s).

According to the concept of a Russian scientist, each stage of modernization is accompanied by reorganization of production relations. This reorganization occurs within the single economic system, reflecting the principles of the production reorganization and technological relations between people, defined by new priorities of scientific and technological progress. Each of these cycles of development and use of innovation are accompanied by significant social changes in the economic life of society. At the macro level it is connected with the search of raw material markets and selling products as the consequence of radical increase in productivity, at the mesolevel – with the changes in the structure of employment and temporary rise of the level of general and structural unemployment<sup>1</sup>.

In the economic sphere, the modernization as stated by S. Eisenstadt, is accompanied by technological growth, which stimulates the systematic application of scientific knowledge (which development activities becomes an area of the

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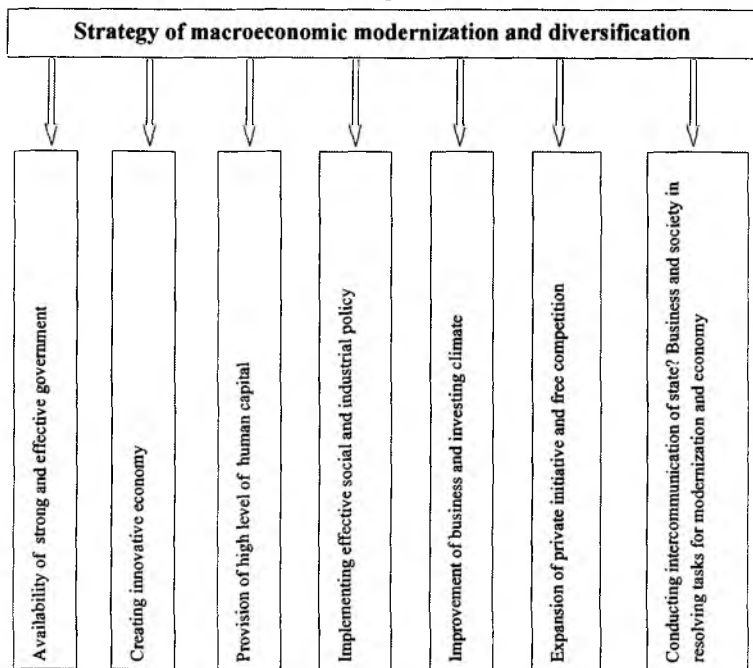
<sup>1</sup> Kondratiev N., Yakovec Yu., Abalkin L. Big cycles of status and the theory of forecast. Selected works. — M.: Economy, 2002. – P.341-347.



specialized scientific institutions), the development of secondary (industrial, commercial) and tertiary (service) sectors of the economy by reducing the values of the primary (mining).

In other words, the economic modernization is presented to scientist as development of the industrial system, based on the high level of technology, increasing specialization of economic roles and sectors of economic activity (production, consumption, distribution), as well as the growth of the scale and complexity of major markets (goods, labor, finance)<sup>1</sup>.

As it is shown on Fig. 2.2, effective strategy of macroeconomic modernization and diversification should provide:



**Fig. 2.2. The strategy of macroeconomic modernization and diversification**

<sup>1</sup> Eisenstadt, Sh. Revolution and transformation of societies. Comparative study of civilizations. — M., 1999. — P. 261.

- strong and effective state;
- creation of innovative economy;
- ensuring a high level of human capital;
- implementation of effective social and industrial policy;
- improving the business and investment climate;
- expansion of private initiative and free competition;
- establishing cooperation between the states, business and civil society in solving of modernization issues and diversification of the economy.

Macroeconomic modernization is primarily considered in three different meanings:

2) catching up modernization, practiced by countries that do not belong to the first group countries, but seeking to catch up them;

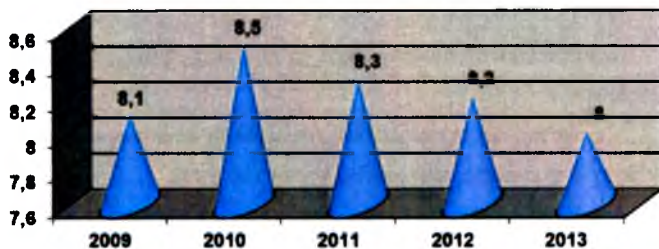
3) processes of evolutionary development of the most modernized societies, i.e. modernization as a permanent process, carried out through reforms and innovations, which today means a transition to a postindustrial society.

Country with catching up economy, as a rule, first develop light industry, agriculture, natural resource industries, environmentally "dirty industries" (metallurgy), etc., i.e. industries with low added value. The development of the country "concede" to similar industries of developing countries, often keeping control using investments. At certain stages of development, a country with a catch-up economy through economic instruments and state regulation redirect investment flows in mechanical engineering, automotive, electronics, computer technology, etc.

In Uzbekistan, thanks to the implementation of its own model of socio-economic development of the country it is provided high sustainable growth, macroeconomic balance, modernization and diversification of the economy. At the beginning of market reforms, the country's economy developed at a moderate rate: in 1997-2003 at the rate 3.8-5.2 % per year. Since 2004, economic reforms have been significantly increased in the country; it was created a favorable business

environment, deepened modernization, technical and technological renewal of production.

As a result, Uzbekistan among few countries in the world, despite the negative impact of the ongoing global financial and economic crisis, maintains a steady rate of development. So, if the GDP growth rate in 2008 was 9.0, in 2009 - 8.1, and in 2010 - 8.5%, in 2011 - 8.3%, in 2012 - 8.2% in 2013 - 8.0% (Fig. 2.3).

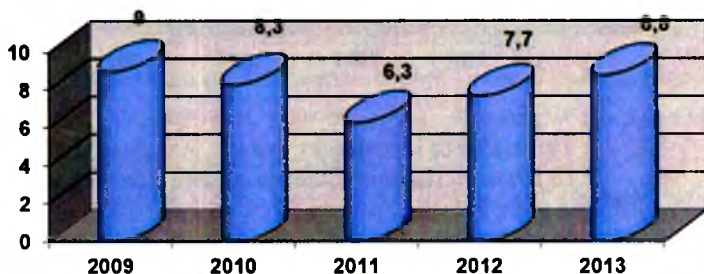


**Fig. 2.3. Growth rate of gross domestic product in Uzbekistan ( %)**

In order to strengthen macroeconomic stability, the state contributed to the accelerated development of the state basic industries: oil, gas, gold, non-ferrous metallurgy, chemical and petrochemical industries. As a result, the qualitative changes have happened, and sectoral structure of industry in Uzbekistan became more diversified and balanced. The taken measures for industrialization, modernization, technical and technological renewal of production, the creation of new industries - automotive, petrochemical, railway engineering and other industries ensured industry growth (Fig. 2.4). In the GDP the share of industry currently is for more than 24.2%.

Consistently the program of priority development industry is implemented in 2011-2015 together with sectoral programs on modernization, technical and technological renewal of production. As a result, in the structure of the industry, manufacturing industries occupy increasingly prominent place, producing

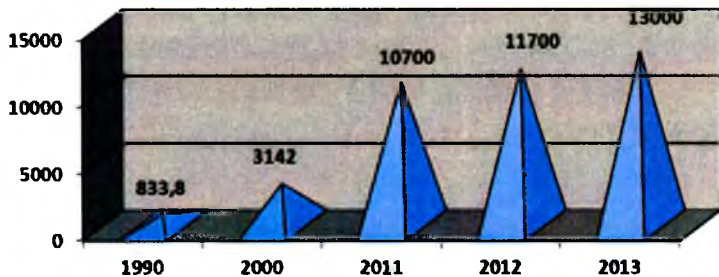
competitive products with high added value. Currently, these industries produce more than 78.0 % of the industrial output of the country. The high-tech industries such as engineering and metalworking, construction of materials, light and food industries are developing in advance rate. New modern production of telecommunication equipment, computer equipment, a wide range of consumer electronics are created.



**Fig. 2.4. The dynamics of industrial growth in Uzbekistan (%)**

Steady inflow of foreign investments into the national economy is convincingly evidence about the effectiveness of the state's economic policy and, above all, the creation of a favorable investment climate and reliable guarantees for investors. During the years of independent development in the economy it was mastered over 162.0 billion U.S. dollars of capital investments, including more than 56.0 billion dollars of foreign investment. Only in 2013 under the Investment Program at the account of all sources of funding it was completed the implementation of 150 projects of industrial direction with total amount approximately 2.7 billion U.S. dollars.

The main part of the attracted investments (over 70.0 %) is primarily directed to the industrial construction, and the share of investment in the acquisition of modern, advanced equipment is approximately 40.0 %. Overall, the level of investment in the economy currently stands at 23.0% to GDP (Fig. 2.5).



**Fig. 2.5. Dynamics of investment growth into fixed capital of Uzbekistan (in equivalent to million dollars)**

Modernization and upgrade of production capacity, the implementation of modern and highly innovative technologies contribute special industrial zones "Navoi", "Angren" and "Dzhizak" created in Uzbekistan. The mastering of new high-tech industries in these zones serves as a powerful impetus for the growth of industry and the efficient use of raw potential of the country regions.

The deep changes in the structure of the national economy have become an important factor in strengthening the country's export potential for sustainable growth and positive changes in the structure of domestic exports. Despite the instability of the world market situation, in 2013 the surplus of foreign trade amounted 1.3 billion U.S. dollars. In the structure of exports in recent years it is shown clearly strong tendency to increasing export sales of competitive finished products. So, in 2013, more than 72.0% of this total exports came to 4 non-commodity products, which is concrete evidence of diversification of the national economy.

The steady high economic growth rates, regular revision of wage, pensions, stipends and allowances provides increasing income, improvement of the life

quality. It is clearly seen in the significant increase of average living standards of the population.

Aggregate real incomes per capita for the years of independence have increased in 8.2 times. The consistent implementation of adopted social policies caused an increase of the minimum wage to 2.6 times to the level of 1990 and increased the minimum pension in 5.9 times to 1990 level.

Currently, the average pension in Uzbekistan in relation to the average wage is 37.5 %, while in Russia - 25.7%, the Central Asian countries - 23,0-28,0 %. In 2014, this indicator is provided at 41.0% in the country.

The structure of family income change - share of business income is more than half of total income, while the average parameter of this figure in the CIS countries does not exceed 20,0-25,0 %.

Resumptive and the resulting level indicator and life quality of people is their self-rating, awareness of belonging to a particular group of the population. At the same time, along with per capita income, take into account such important parameters determining the quality of life, as the conditions and standards of living, provision of modern landscaped developed housing and well-maintained living environment of people, the availability and quality of infrastructure, provision of high-quality consumer goods access to quality education and health care and others.

Currently, 97.0 % of families have their own housing. The rising of incomes and savings ensures purchasing power of the population. For the period 2000-2013 years, the consumer spending increased by 9.5 times. The consumer basket qualitatively changed. In the recent years the expenses for purchasing non-food goods and services has increased significantly.

The equipment status of families with modern appliances raised, including refrigerators, air conditioners, personal computers, televisions, mobile phones. Especially revealing is the provision of cars in recent years. If in 2000, 100 families had 20 cars, now this number increased to 41.4.

As the results of study, more than 11.0 % of households have two cars.

The strategic goal of Uzbekistan - maintaining stable high economic growth and competitiveness of the economy. The most important high-tech and modern facilities and capacities will be put into operation in the industry, the investment process improved.

For social development, it is planned to send about 60.0 % of all expenditures of the State budget. It is scheduled to continue the construction of comfortable houses and improvement of rural settlements with all the necessary engineering and transport communications, objects of social and market infrastructure - health, sports, banking, consumer, commercial and cultural institutions.

## **2.2. Formation and development of human capital theory**

The history of world economics shows that until the beginning of the XX century a major role in the manufacturing process played physical capital: the means of production, material conditions, etc., as requirements for the workforce were minimal, it was enough presence of natural forces that used as one of the resources, technologies like appendage. Workers were easily trained and are replaceable.

However, objective processes which took place in the middle of the XX century, changed the situation significantly. Rapid pace of scientific and technological process put forward knowledge, competence, skills, and abilities of human. Namely human became the main driving force of the economy development, i.e., first it is occurred radical transformation of the totality of social relations. It was facilitated the formation of motivation in society: increasing participation of personnel in the results of own labor, property and management through the participation system in the profits, privatizing enterprises, increasing the number and effectiveness of cooperative enterprises.

So it was formed the category of "human capital" in the economics. Its appearance was a response to the economic and related sciences to the requirement of the real economy and life. There is a problem of depth understanding of the

human role and the accumulated results of intellectual activity on the rate and quality of society development and economy.

The appearance of the concept of human capital dates from the XVII century. One of the first who used the concept of human capital was William Petty<sup>1</sup> in 1676, comparing the loss of weapons and other weapons of war with the loss of human life. He believed that human life has a monetary value, indicating that the loss of human life in war is a monetary loss to England. W. Petty included in the wealth and its sources not only the earth, but the rent, capital and profit (interest) for him, and the people whose work, depending on qualifications and health of employees provides them (and the nation) one or another income. In his view, the human capital is estimated as capitalization of life earnings of the employee - life annuity with a market rate of interest, personal income derived from the national income<sup>2</sup>.

A century later, Adam Smith and other classics of economic theory also recognized the concept of human capital. Adam Smith in 1776 in his famous treatise "An Inquiry into the Nature and Causes of the Wealth of Nations" pointed out that people's welfare is mainly determined by the number of workers and the quality of their skills. Approximately a century later, Alfred Marshall noted long-term nature of investment in human capital and the role in this process of the human.

Indeed the statistical data of economic growth in developed countries greatly exceed estimates based on the account of classical growth factors. Analysis of the actual processes of development and growth led to the assertion of human capital as the main productive factor and social development of the economy and society.

As it is known, an encyclopedic interpretation of *capital* (french, english «*capital*» from latin «*capitalis*» - «*main*») says it is "something that can generate

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<sup>1</sup> **William Petty** (*William Petty*, 1623—1687) — English statistician and economist, one of the pioneering founders of classical political economy in England. The main work: *Treatise of taxes and contributions*, 1662.

<sup>2</sup> Petty W. *Economic and statistical work / Petty W.* Volume 1. — M.: Socekgiz, 1940. - P.156.



income or resources created by people to produce goods and services, invested in business functioning source in the form of means of production"<sup>1</sup>.

The term "capital" usually refers to the products of labor, which are going to be used for further production. The process of creating capital is called investment. The investment, according to definition, requires initial expenditures, which then, after some period of time are compensated.

In the 60-s of the twentieth century, it was apparent that without the implementation of large-scale social programs it is not possible to achieve a significant increase of quality life, solving social and demographic problems, creating effective system of employment and poverty reduction. The meaning "economic development" is more enriched with qualitative features: the structure of the national economy, education level, the state of health and culture, consumption structure of people. Accordingly, it is required both economic restructuring and optimization of extractive and manufacturing industries, as well as the further development of health, education and culture.

In the early 70 -ies of XX century, it was introduced the concept of "redistribution at the account of growth", the aim of which was to ensure the welfare of the people, especially the poor, through the expansion of labor-intensive production, large-scale state support by providing to poor people greater access to productive assets and providing coverage in the field of education and health of poor people, so that the results of economic growth are equally used by all segments of the population.

In 1976, it was prepared the report of the International Labour Organization "Employment, growth and basic needs". This concept of basic needs included:

- an increase of population income based on the effective labor-intensive production in countries with abundant labor resources in order to create additional jobs;
- public access to "basic requirement" - social goods and services ( Table 2.2);

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<sup>1</sup> Economic encyclopedia /Chief editor Abalkin L.I. – M., 1999. - P.271.

- implementation of the principle "development through participation", i.e. ensuring people's participation in making and implementing decisions.

However, the concept of "redistribution through growth" and "basic requirements" did not receive adequate support, which is explained and a clear justification of interlink between economic growth and quality of human life.

**Table 2.2**

**The indicators of main requirements**

<b>Main requirements</b>	<b>Indicators of main requirements</b>
Health	Expected life duration
Education	Literacy. The share of pupils in elementary school, in % of population in age of 5-14 years old
Food	Quantity of calories per capita, in % from required
Water supply	Child mortality (per 1000 born). Population share, having access to drinking water
Sanitary conditions	Child mortality (per 1000 born). Population share in houses with waterline and sewage

The search for new growth factors becomes the basis for developing the human capital theory.

Originally the human capital is understood only the aggregate of investments in human, which increases its ability to work - education and professional skills. In the future, the concept of human capital has increased significantly. The recent calculations made by the World Bank, include consumer expenditures - family expenses for food, clothing, housing, education, health, culture, and government expenses for these purposes.

Based on this, briefly: *human capital* - is the intellect, health, knowledge, quality and productivity and quality of life.

*Human capital in a broad sense* - is an intensive productive factor of economic development, social development and family, including educated part of labor, knowledge, tools and management of intellectual labor, environment and work to ensure the effective and efficient functioning of the human capital operation as a productive factor of development.

According to human capital theory, people can increase their capacity by investing in yourself, and the government - to increase national income, with a

focus on the creation of human capital. The main argument in favor of such investments is that spent money can be compensated through increased productivity and higher wages, and thus it can be justified.

Expansive meaning of this term under the capital are implied all elements of social wealth that are accumulated, used in the manufacture and generate profit. This, in turn, according to T. Shultz allows beginning to consistent division of entire to parts, namely: human capital and non-human (real) capital<sup>1</sup>.

In order fully understand the concept of human capital, it makes sense to define the differences between physical and human capital. Although they are similar in some ways, especially in regard of the insertion assets to media today in order to get profit in the future, human capital has unique features. Unlike physical capital, human capital is not passed, it is directly connected with the human - his carrier. The owner of human capital in a free society can only be human himself.

This form of capital may also depreciate in a special way, if, for example, the owner gets sick, and disappears completely at the owner's death. This makes investing in human capital is much more risky than investing in physical capital.

Impossibility of "passing" is also associated with the inherent in human capital dependence on the desires of its owner. Based on their tastes, preferences or values in life, people may use the capital it has, with different level of efficiency. The productivity of existing quantity of human capital (if it can be measured) will vary depending on the individual ability to use.

In fact, a large discrepancy can exist between human capital stock, which is available population have, and the quantity used in the labor market.

Material capital has a direct material form of wealth – building and structures, land and other natural resources, durable equipment, inventory stocks. Non-material capital does not have its own material form; it is embodied in the real capital, improving its quality or productivity.

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<sup>1</sup> Shultz T. Human Capital, family planning and their effects on population growth // American Economic Review. - 1994. – May. P.45.

Both parts of the total capital are allocated, in turn, on capital, not embodied in people and in human capital. Real capital embodied in individuals is defined as the costs necessary for the formation of human, i.e., the costs for raising children (excluding the cost of their education). American economist D. Kendrick referred non-real human capital to accumulated costs of general education and special training, part of the accumulated costs for health care and the cost of the labor movement. Basic and applied researches and development are belonged to non-real capital, not embodied in a human<sup>1</sup>.

T. Schultz made huge contribution to the development of human capital theory, popularization and acceptance by the scientific community in the initial stage. He was one of the first who introduced the concept of human capital as a productive factor. And he did a lot for understanding the role of human capital as the main engine and the foundation of industrial and post-industrial economics.

In "Transforming traditional agriculture», T. Schultz emphasizes the special role of agricultural technology, the level of which, in his opinion, depends primarily on the information in the hands of the farmer. Low level of farmers' knowledge of is a deterrent of growth in productivity and efficiency of agriculture.

Recognized founder of the theory of human capital in search of new growth factors paid attention to the fact that namely education transforms a simple artist into the creative worker makes him to analyze the situation and look for the best solutions of industrial problems. He relates to investment in human capital, not



**Theodore William Schultz** (Theodore William Schultz, 1902-1998) — American economist, Nobel Prize 1979 "for pioneering studies of economic development in the annex to the problems of developing countries", Main books: Food for the World, 1945), (Transforming Traditional Agriculture, 1964).

<sup>1</sup> G. Kendrick Total U.S. capital and its functioning. – M.: Progress, 1976. P.113.

only the direct expenses of education in secondary and higher education institutions, but also self- education at home, increasing experience at work, investment in the sphere of education and science.

The main results of investments in human capital T. Shultz believed accumulation of people's abilities to work, their effective creative activity in society, health maintenance, etc. He believed that human capital could be accumulated and replicated. According his estimates the total product produced in

the society for accumulation of human capital is used not as 1/4, as in most of the theories of reproduction of the XX century but 3/4 of its total value.

Another theorist of human capital - G. Becker, perhaps, the first who transferred the concept of human capital to the microlevel.

Human capital of company he defined as a set of skills, knowledge and abilities of the person and emphasized the special significance of special education, special knowledge and skills. Special training of workers generates competitive advantages of the company and important and significant features of its products and market behavior, ultimately, its know-how, image and brand. To make special training firms and corporations are primarily interested themselves, and they finance it.

Additional income from higher education he defined as follows: from the income of those who graduated from college, he deducted the income of workers with secondary education. The costs of education were considered as direct costs and opportunity costs - lost income during training. The return of



**Gary Stanley Becker**  
(Gary Stanley Becker, born December, 2, 1930)  
— American economist, Nobel Prize 1992. «for spreading sphere of microeconomic analysis for several rows of aspects in human behavior and intercommunication, including non-market behavior. The main books: The Economics of Discrimination, 1957, Human Capital, 1964, Economic Theory, 1971.

investments in education G. Becker rated as the ratio of income to cost, and received approximately 12.0-14.0 % of annual profits.

According to the scientist, the choosing of investment options in improvement, increasing skills and growth, for example, years of education, are a special case of rational choice. The practical significance of his research is that he got the quantitative assessment of profitability of investments in human and compared them with the actual profitability of most U.S. companies. Appearance of large number of private educational institutions, the activation of consulting firms, conducting short-term seminars and specialized courses, shows that the profitability of the private sector of educational activities 10.0-15.0 % higher than the profitability from other commercial activities<sup>1</sup>.

Dividing the category of human capital as part of the total industrial capital allows to give it a more precise structural analysis (Fig. 2.6).

According to the classification of the American economist I. Ben-Porath human capital can be considered as consisting of:

- 1) skills and abilities of the people involved in the production of the human capital;
- 2) the part of capital, services of each are offered in the market and which are investments in the production of other goods and services<sup>2</sup>.

G. Becker also introduced the concept of "special human capital", which is in contrast to the "general human capital" includes the knowledge and skills acquired through special training and are interested only for the company, where they were received<sup>3</sup>.

S.Fischer stated: "Human capital is the measure embodied in a human ability to generate income. Human capital includes innate abilities and talent, as well as education and skills acquisition"<sup>4</sup>.

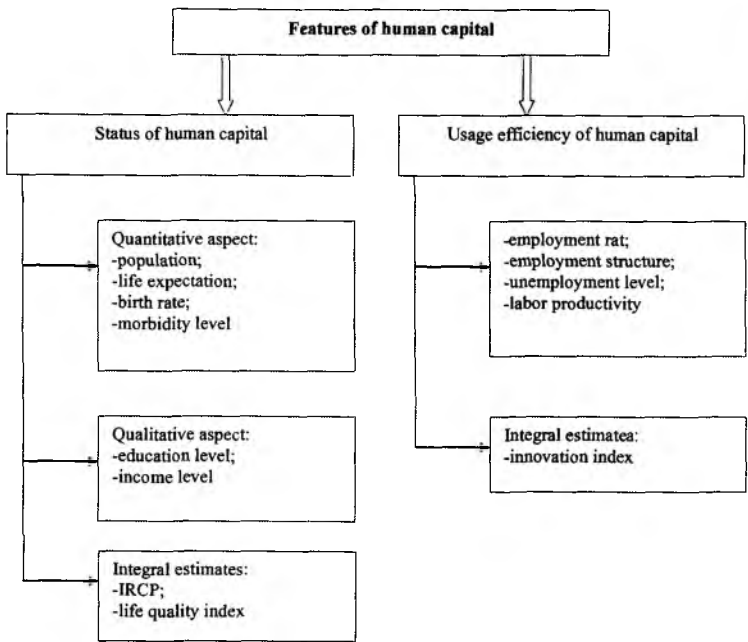
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<sup>1</sup> Becker, G. Human behavior: an economic approach. Selected Papers on Economic Theory / Translation from Eng., comp., science edition after Kapelyushnikov R. I. - M.: GU VSHE, 2003.- P.121.

<sup>2</sup> Ben-Porath. The Production of Human Capital and the Life Cycle of Earnings. - N.Y.; -L, 1970.- P.49.

<sup>3</sup> Becker G. Impact on earnings of investment in human capital // USA: economics, politics, ideology, 1993, № 11 - P.110.

<sup>4</sup> Fischer, S., R. Dornbusch R., Schmalensee R. Economics. — M., Unity, 2002.- P. 21.



**Fig. 2.6. Characteristics of human capital**

Some scientists consider the structure of human capital in terms of the relationship and the possibility of participation of its bearer in the production process. So O. Nordhough noted: "It is useful analytically to distinguish health and skills of workers on the one hand, and work motivation and commitment to the company on the other. The first two elements, taken together, constitute the fundamental ability of the employee to perform a single task, i.e., that in principle, or potentially, he is able to do at the work. The last two elements of human capital affect the current (real) activity during work by reflecting the fact that this particular worker with the qualification wants to do at work. The ability and willingness together form an employee's ability to work»<sup>1</sup>.

<sup>1</sup> Nordhough O. Human Capital in Organizations: Competence, Training and Learning. – Oslo.: Scandinavian University Press, 1993. - P.52.

Another classification of human capital on the basis of cost elements and investment was proposed by I.V. Ilyinsky. He identified the following components of the human capital: education capital, health capital and the capital of culture<sup>1</sup>. For more complete and detailed characterization of the structure of human capital as an economic category it is necessary to consider the principle of the functional approach. The methodological principle of functionality provides the phenomenon not only in terms of its internal structure, but also in terms of its functional purpose<sup>4</sup>, the final intended use.

According to this principle, the Russian economist S.A. Dyatlov believes that human capital - is formed as a result of investments and gained by human a certain stock of health, knowledge, skills, abilities, motivations, which is useful applied in a particular sphere of social reproduction, contribute to the growth of labor productivity and production efficiency, and thereby affect the growth of earnings (income) of the individual<sup>2</sup>.

Consistent definition of the human capital category as the objective function of different scale of its implementation takes place in the qualification of human capital, proposed by V.T. Smirnov and I.V. Skoblyakova. This qualification is based on the allocation of capital in the structure of the human species, which may be alienated from the human personality. This approach allows us to consider and evaluate the human capital at level of the individual, a certain company or group of companies - the human capital of an economic entity, as well as the state as a whole - the national human capital<sup>3</sup>.

Analysis and synthesis of various approaches to types of human capital allow us to represent the structure of the economic categories as follows (Fig.2.7):

1. Cultural and moral capital. Employee reputation, the company's image is just as important, how important business parameters. Business honor, conscience, honesty, responsibility are highly valued in civilized dealings. Category of cultural

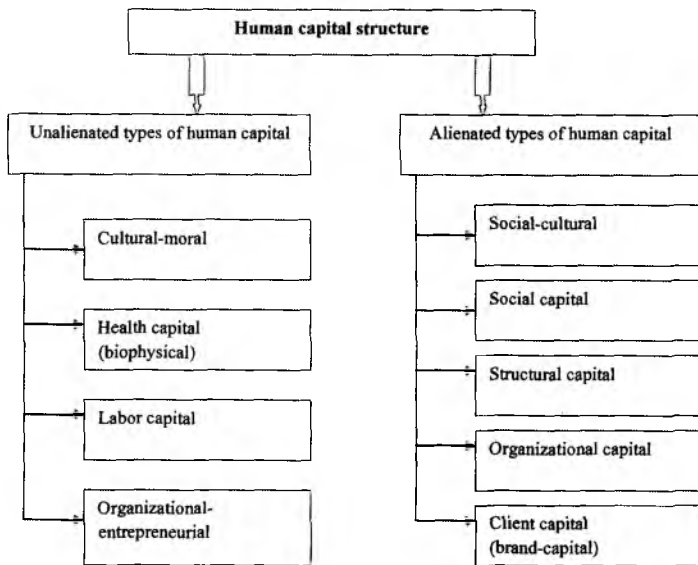
<sup>1</sup> Ilyinsky I.V. Investing in the future: education investment in reproduction. – St. Pt.: SPBUEF, 1996. - P.127.

<sup>2</sup> Dyatlov S.A. The theory of human capital: Textbook. – St. Pt.: SPBUEF, 1996. - P.72.

<sup>3</sup> Smirnov V.T. Skoblyakova I.V. Classification and types of human capital in the innovation economy. – St.Pt.: Prospect, 2001.- P.200.



and moral capital within the social sciences refers to the totality of intellectual abilities, education, skills, integrity, qualification training of the individual, which will be used in the implementation of social activity and thus legitimize the possession of status and power.



**Fig . 2.7. Structure of human capital**

2. Capital Health (biophysical). Physical strength, endurance, performance, increasing the period of active employment is essential for any person in any professional field. Health capital is an integral part of human capital, investments which are expressed in maintaining health by reducing morbidity and increasing the period of active longevity.

3. Labor capital. The more complex the work, the higher the requirements to the qualification, knowledge, experience and responsibilities of the employee. Skilled labor is more productive than simple labor, and, respectively, paid better.

In enterprises the working capital is embodied in the labor of skilled workers, the proportion of which depends on the used technology.

4. Labor capital, which is been forming the whole life by accumulation of experience, job skills, and most important, education. The education is a major way in the reproduction of skilled workers.

5. Intellectual capital. A product of intellectual activity is patented and is secured by copyright, as the exclusive property of the author, who owns the right to determine the area and forms of its economic use. Intellectual property objects are involved in economic turnover as non material assets of enterprises and increase their incomes, as well as the owners of the assets.

6. Organizational and entrepreneurial capital. For business or personnel management it is required entrepreneurial and business nous, organizational skills and high level of responsibility, innovation, sense of thrift and economy, energy and the will power to risk intelligently. Entrepreneurial privileges - possession of huge resources, know-how, commercial secrets allow to turn them into special, institutional venture capital.

The level of entrepreneurial abilities embodied in the value of own and controlled capital that allows you to select a small, medium and large business.

If the above types of human capital are referred to inalienable types of this economic category, thus the alienated forms of human capital are:

- socio- cultural human capital, which reflects the integration and cooperation of cultural skills and abilities of workers, presence of permanent information, scientific, educational, technological flows in the structure of social reproduction;

- social capital, which include such elements as social norms, trust, etc. Social capital is linked to the fact that every economic entity in some way is integrated into the system of social relations. This type of human capital has a number of specific features:

firstly, it is always a product of organized interaction, so it has a social, and not an individual form;

secondly, the social capital as an element of functioning social and organizational system cannot be privately owned, i.e. to be a public welfare.

A. I. Merko also considers information, ideas, trust, cooperation, emotional support, etc., which makes organization level also to social capital. On this basis, he distinguishes two levels of social capital: individual, group (organizational)<sup>1</sup>.

1. Structural capital - the ability of business entity to manage its organizational structure, adapting to the changing market conditions and at the same time changing market structure in profitable direction for the company<sup>2</sup>. The competitive environments where firms operate in a modern economy are continually changing under the influence of innovation. The high rates of these changes complicate the conditions under which the company can succeed. One of these conditions is the presence of significant structural capital with the firm.

2. Organizational capital. By its meaning it is a systematic and formalized business entity competence plus system, enhancing the creative effectiveness and organizational capabilities. Organizational capital includes:

- capital innovation, which includes protected commercial rights, intellectual property and other non material assets and the values, providing a firm's ability to renew;

- capital of processes, which can be represented, for example, by systems of production, sales, after-sales service, etc , in the process activity, when the value of the product is formed.

It is defined also client capital (brand capital). The activity of the company, which has client capital, can be called "mega-enterprise" involving the user in the "co-creation and improvement of consumer values, because the buyer acts as a judge in the last instance of all products and services» created by company<sup>3</sup>.

The above structure of the types of human capital indicates that the economic category is one of the most difficult subject to the variety of

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<sup>1</sup>Merko A.I. Socially responsible business relationship of state and corporate policy in a globalizing world. Monograph. – M., 2009. - P.180.

<sup>2</sup> Kostyuk V.N. The theory of evolution and socio-economic processes. – M: URSS, 2004.- P.126.

<sup>3</sup> Edvinsson L., M. Malone Intellectual capital. Determining the true value of the company. –M.: Academy, 1999. - P. 442.

manifestations of the human itself. Despite the unity and indissolubility of real and human capital in the frame of productive capital, and the leading and increasing role belongs to human capital. Namely human capital preserves and transfers cost of consumed physical capital on goods, creates new value, compensating the amount of labor and give the profit to capital owners.

According to opinion of Professor K. H. Abdurakhmanov "The meaning of human capital is higher than natural resources, wealth and resources"<sup>1</sup>. That's why he is the main factor of economic growth and efficiency.

Concept of human capital as an economic category is constantly expanding with the development of the global information society and economical knowledge. Currently, human capital broadly is defined - as an intensive productive factor in the development of economy, society and the family, including educated part of labor resources, knowledge, tools and management of intellectual labor, environment and work activity to ensure the effective and efficient functioning of the human capital as a productive factor of development<sup>2</sup>.

According to the theory of human capital, human capital accumulation may have various forms. The most obvious of these is the accumulation of capital, improvement of abilities and skills during training, as well as the acquisition of knowledge and skills in the course of professional activities. In this row we can place previous and current family education. There are other forms: taking care of (investment in) health, migration, acquisition of information on the functioning of the economy, labor market and other forms of ensuring the development of intellectual and physical abilities and possibilities of their implementation, increasing the efficiency of its work.

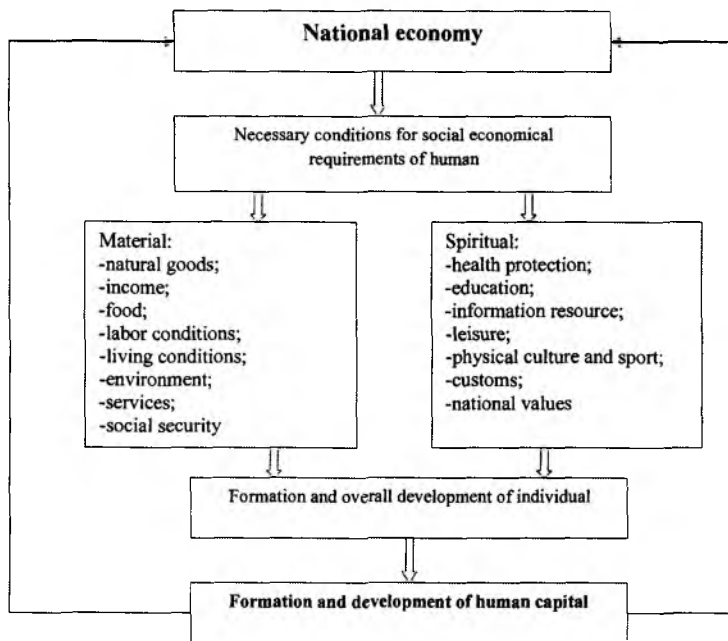
Regardless of the formation sources of - government, family, private and other human capital, private and others, the usage of human capital and receiving direct income is controlled by the individual (Fig. 2.8).

At *an individual plan*, human capital includes health reserve, abilities, knowledge and skills. The so-called "personal cost" of person is growing in phases

<sup>1</sup> Abdurakhmanov K.Kh. Labour economics. –T.: Mekhnat, 2009. - P.182.

<sup>2</sup> Korchagin Yu. A. Investment strategy. — Rostov on Don: Fenix, 2006. P. 17.

of life, used in purpose to increase labor productivity, leading to increasing profit and motivates him to make personal investments in the development of their own competencies.



**Fig.2.8. The process of formation and development of human capital**

In the recent period in *the capital structure of the company*, a special role is played such non material assets as trademark (brand), staff and new technologies. It is also possible to include individual human capital assets (licenses, patents and copyright certificates), corporate non material assets (trademarks and trade signs), organizational capital, structural capital, brand capital and social capital.

*National human capital* includes social, political capital, the national intellectual priorities, national competitive advantages and natural potential of the

nation. National human capital is more than half the national wealth of each of the developing countries and over 70,0-80,0 % - in developed countries.

It should be noted also that the theory of human capital, has a number of contentious issues, both practical and theoretical.

Although to analyze some aspects of the labor market, it is more appropriate than neoclassical economic theory, both are originally based on the assumption that there is an "ideal" information on opportunities for investment in human capital, as at a given moment and in the future period of time. The theory suggests that the individual correctly estimates the investment costs and expected returns in the form of future earnings. This assumption does not consider the many economic and even political factors that could affect the ability of earnings at certain skills and professions.

The second problem relates to the empirical importance of human capital theory. Some studies have shown that such investment in human capital, such as education, determines only a small portion of fluctuations in the amount of people wage. If you do not take into account such factors as the origin and motivation, it can lead to an overestimation of future self-sufficiency by investing in human capital

In comparison with physical capital, investment in which is normally performed only in purpose of production development, the funds invested in human capital can be partially used unproductively. Thus, the expenses of it cannot be fully attributed to the investment. For example, most of students engaged in history, fine arts and literature, make it not only in purpose to increase their productivity. All of this makes it difficult to calculate the expenses and recovery of investment in human capital.

Along with this, similar to any market of investment, human capital market is not free from drawbacks. Such as:

- relative freedom of movement of labor force reduces employers' willingness to invest in development;

- lack of information about the education value, especially among young people, leads to inadequate or poor investments in human capital;
- significant part of the population does not have enough money for a serious investment.

Because of these and other shortcomings of the market investment in human capital, probably it is not necessary to consider that market mechanisms will ensure optimal level of such investments for economy. Therefore the participation of government in investing in human capital becomes vital part.

The particular importance of this approach shows World Bank study, which made a conclusion based on results of 192 countries, as follows:

- more than 64.0% of economic growth related to human capital;
- natural resources of the country provide up to 20.0% growth;
- production capacity of the country (in countries with transition economies) provides 16.0% of economic growth<sup>1</sup>.

These facts clearly demonstrate the role and importance of human capital in modern society.

### **2.3. “Genuine wealth of nation is people”**

*«The real wealth of nations - the people. The main objective of development is to create an environment that will enable people to live long, healthy and creative lives. This may seem as simple truth. However, it is often forgotten due to current interest in the accumulation of commodities and monetary wealth»*- in this way the report about Human Development of the United Nations was started in 1990.

Basically, this is not news. Aristotle emphasized that the ultimate goal is to ensure that people have "prosperous lifestyle"<sup>2</sup>.

Great Alisher Navoi<sup>1</sup> glorified human as: “Human - the most valuable, the best and the most desired of created things in the world. Everything is created for

<sup>1</sup> Data of World Bank // <http://www.worldbank.org>

<sup>2</sup> See: Human development: new measurement of social economic progress. - M., 2000. P. 23.

human and for him. The purpose of all creatures, the sun and the universe, mountains and plains, seas and rivers, plants and animals, flowers and nightingales, air and fire, seasons of the year, i.e. all the beautiful nature, its inexhaustible riches, delights are for the service of human”.

Abu Rayhan Beruni<sup>2</sup> stated: “The prosperity of the country is determined by the state of sciences, their blooming. The best happiness of human - in cognition, as it has mind. Just such understanding of happiness will provide to society peace and prosperity. The true enjoy gives just such thing, striving for what is increased, as long human possesses. And such state of the human soul, when he understood that what he had not known before and the supreme dignity of the person - caring for others, especially the poor people”.

The process of development of the main wealth of nations - human depends largely on the volume of rights and freedoms, which determines its social opportunities and benefits ensuring the nature of life, a system of relationships, cooperation, and relationships of people in society. Therefore, the problem of human rights was always subject of sharp class battles which were for the possession of rights, for the empowerment, fixed status of human in society.

Uneven distribution of rights between class and class structures, and sometimes fully deprivation of right (if talking about slaves) it was inevitable for the initial stages of social development. Each new step adds other features to human rights and spread them within wider range of subjects. And it was occurred during the struggle between classes and classes for their rights, for freedom, its expansion and enrichment. In addition, each stage of social development was the step towards gaining and expanding freedom.

History indicates that constant efforts are required to support and protect human rights and freedoms. Each generation is responsible for the eternal challenge of history associated with defending such great value as freedom and human rights.

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<sup>1</sup> **Alisher Navoi** (1441-1501) – Great Uzbek poet, thinker, statesman.

<sup>2</sup> **Abu Rayhan Beruni** (973-1048) – Great Uzbek scholar, thinker, one of the geniuses of the Middle Ages.



One of the first philosophical and legal concept of human freedom can be found at Epicurus. Human freedom - according to the ancient Greek philosopher - is responsibility for reasonable choice of their lifestyle. The sphere of human freedom – is a sphere of its responsibility for itself. Freedom is achieved through the elucidation of “what depends on us” and “not belonged to any master”<sup>1</sup>.

Natural-legal ideas of ancient Greek thinkers about freedom and equality of all human were further developed in ancient Rome. According to the legal positions of the Greek stoics we understand that slavery has not excuse because it is contrary to the general law and world co-citizenship of people. In natural-legal concept of Seneca <sup>2</sup> inevitable and divine nature "law of destiny" plays the role that the rights of nature, which is subject to all human institutions, including the state and the laws. The universe, according to Seneca, a natural state with its natural rights, the recognition of which - is necessary.

The great importance had also provisions on the subject of law, the people legal status, the people freedom of natural law, on the division of the right to private and public, the fair and unfair law developed by roman jurists.

In the spirit of the ancient natural legal ideas, Thomas Aquinas <sup>3</sup> asserted that the purpose of the state - is "common good" of its members, providing conditions for their worth life.

The idea universal human equality, originated in ancient times, was further developed in the works of thinkers of New time. New rationalistic theory of human rights was developed in the writings of B. Spinoza, Sh. Montesquieu, T. Jefferson, I. Kant and other thinkers. By their criticism of the feudal system and justification of new concepts of individual rights and freedoms, the necessity of supremacy of law in the relationship between the individual and the state, this theory contributed greatly to the formation of a new worldview<sup>4</sup>.

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<sup>1</sup> Materialists of Ancient Greece. - M., 1955. - P. 219.

<sup>2</sup> Lucius Annaeus Seneca (*Lucius Annaeus Seneca*, 4 b.c.–65) – Roman Stoic philosopher, poet and statesman, one of the leading representatives of Stoicism.

<sup>3</sup> Thomas Aquinas (lat. *Thomas Aquinas*, approximately 1225-1278) – philosopher and theologian, founder of Thomism, the religious movement in philosophy.

<sup>4</sup> Zharkov B.N. Human rights in the contemporary world: problems and solutions. - M.: Publishing House «Znanie», 2002.

An important element of this process is the concept of the social agreement as a source of origin and legal basis of the state activity. Developing natural and legal views of contractual conception of the state, Spinoza<sup>1</sup> noted that "the purpose of the state is actual in freedom"<sup>2</sup>.

Rights and freedoms of human and citizen proclaimed in the French Declaration of 1789 acquired the worldwide sound and became imperatives of renewal and humanization of social and state orders. This declaration, exposed to the effects of prior experience in the field of human rights and freedoms in the future itself made great influence on the overall recognition and protection of human rights, the citizen. All subsequent development of the theory and practice in the section of human rights, legal statehood, supremacy of law, anyway is under exposing and continues to be exposed the positive impact of this historic document.

Formation and development of the idea of human rights and freedoms, the principle of citizenship opened the way to progress and freedom.

In the XIX century in different states in different ways it was formed the initial liberal set of civil and political rights (freedom and equality, security of person, the right to property, the right to vote, etc.), in the modern understanding is very limited (property, electoral, political bans, inequality of men and female, race limitations, etc.).

In 1922 on the initiative of the German and French leagues for human rights, two dozen organizations in different countries created the International Federation for Human Rights (FIDH), the world's first international organization for the protection of human rights.

The World War II and the tragic experience of totalitarian regimes initiated a qualitative jump in the development of institution of the human rights and citizen, a leading role in the development of which was acquired the international law.

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<sup>1</sup> **Benedict Spinoza** (*Benedictus de Spinoza*, 1632-1677) – Dutch philosopher and naturalist, one of the main representatives of the New Age.

<sup>2</sup> Spinoza B. Selected works. T. 2. - M., 1957. P. 261.

December 10, 1948 by the resolution 217 A (III) of the UN General Assembly it was adopted and proclaimed the "Universal Declaration of Human Rights. "As in the Declaration of the Rights of human in 1789, the Universal Declaration of Human Rights states that "*All human are born free and equal in dignity and rights*" (Article 1). It is further noted that: "*Everyone is entitled to all the and freedoms proclaimed in this Declaration, without any distinction, such as race, color, sex, language, religion, political or other origin, national or social origin, property, birth or other status.*

*In addition, there should be no any distinction on the basis of the political, jurisdictional or international status of the country or territory to which a person belongs to, whether this territory is independent, ward, non-self-governing or under any other limitation of sovereignty"* (Article 2)<sup>1</sup>.

General principles of human rights:

- human rights and freedoms belong to him from birth, and not granted by the state;
- recognition, observance and protection of the rights and freedoms of human and citizen - the duty of the state;
- set of fixed rights and freedoms of human and citizen in the state must comply with international legal standards;
- in accordance with the principle of equality of rights and freedoms provided equally to all and each other;
- legal norms on human rights and freedoms must be directly applicable, but not the declaration;
- the rights and freedoms of human and citizen shall determine the idea, content and application of laws, the activities of state and local authorities;
- state should not promulgate laws, abrogate or derogate the rights and freedoms of human and citizen, they can be restricted only in exceptional circumstances (except for main);

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<sup>1</sup> The Universal Declaration of Human Rights / International Convention for the Protection of Human Rights and the fight against crime. – T.: Sharq, 1995. - P.11.

- rights and freedoms of human and citizen shall be guaranteed with judicial protection;

- rights and freedoms of human and citizen shall not violate rights and freedoms of others.

Rights and freedoms of human and citizen are divided into *basic (inalienable)*, *basic (constitutional)* and *recognized (fixed in international legal acts)*.

In the legal doctrine by the main sphere of display in public relations human rights are generally divided into: personal, political, socio- economic and cultural, however, largely symbolic this division is also symbolic.

Individual rights are the rights of each, and although it is often called as civil, not directly related to belonging to the citizenship of the state, not derived from it. They are considered as innate and inherent to every human being regardless of nationality, sex, age, race, ethnicity or religion. They are necessary to protect the life, dignity and freedom of man. For personal rights usually include:

- The right to life;
- The right to liberty and security;
- The right to dignity of the individual;
- The right to privacy;
- The right to inviolability of the housing;
- freedom of conscience and thought;
- freedom of movement and residence;
- freedom of choice of nationality and language of communication;
- The right to judicial protection;
- The right to private property.

Political rights and freedoms, as a rule, are closely associated with belonging to the citizenship of the state and it is one of the groups of basic constitutional rights and freedoms of citizens. The political rights, as a rule, include:

- freedom of expression (freedom of information);

- The right to association (freedom of association);
- freedom of meetings;
- The right to participate in managing state affairs and to have equal access to public service;
- The right to nationality;
- voting rights.

Socio-economic rights include:

- entrepreneurial freedom (the right to entrepreneurial and other economic activities not prohibited by law);
- the right to private property ;
- labor rights (the right to work and freedom of labor);
- the right to protection of family, motherhood , fatherhood and childhood ;
- the right to social security;
- the right to housing ;
- the right to health and medical care;
- The right to equitable taxation
- The right to an eight-hour working day, to fair conditions of work, equal pay for work of equal value, etc.

Cultural rights provide spiritual development of the individual. These include:

- the right to education;
- freedom of creativity;
- the right to participate in cultural life;
- the right to a healthy environment.

It is also should be noted that since 1950, every December, 10 is celebrated as International Human Rights Day.

In 1966, under the auspices of the United Nations it was adopted the "International Covenant on Civil and Political Rights" and "International Covenant on Economic, Social and Cultural Rights". These and subsequent international

agreements approved international standard for human and civil rights, and guarantees of ensuring these rights.

Universal Declaration of Human Rights was the first international legal instrument which Uzbekistan joined after independence. Uzbekistan identified human rights and interests as top priority of social development and nation building in all its internal and external policies. This is evidenced by the fact that our country has acceded to more than 60 major international human rights instruments, became a participant of six fundamental international agreements adopted by the UN in this area.

The provisions of the Universal Declaration of Human Rights embodied in the norms of the Constitution, national laws to ensure the protection of political, economic, social and cultural rights and freedoms.

The Main Law of our country begins with the words that people of Uzbekistan solemnly proclaim their commitment to human rights. Personal, political, economic and social rights of Uzbek citizens fixed in the Constitution, in principle identical with the Universal Declaration of Human Rights. It is specially emphasized that the state ensures the rights and freedoms embodied in the Constitution and the laws (Article 43).

In Uzbekistan it was effectively implemented the mechanisms of protection political rights and freedoms of citizens. In the country actively functioning system of national human rights institutions: the Oliy Majlis of the Republic of Uzbekistan for Human Rights (Ombudsman), the National Centre for Human Rights, Independent Institute for monitoring the formation of civil society, as well as branches for the protection of human rights, especially by the Ministry of Justice, General Prosecutor Office, the Ministry of Internal Affairs of the Republic of Uzbekistan.

In our country, more than 6,500 non-profit organizations work actively. The number of citizens' assemblies and self-governing authorities-makhallas reached more than 10,000. Civil institutions, non -profit organizations now becomes an important factor in protecting democratic values, human rights, freedoms and

legitimate interests of the people and create conditions for citizens to implement their potential, improve their social, socio- economic activity and legal culture, and help to maintain the balance of interests in society. In the process of democratic renewal of the country it was received more than 200 legislative acts aimed at strengthening the role and importance of civil institutions and solving current social and economic problems of citizens.

In the sphere of social and state construction, the role of political parties significantly increased. Independent media develops and have become a powerful factor in increasing the political, social activity.

It is formed the system of continuous education and awareness of human rights. More than twenty specialized magazines and newspapers of human rights issues of legal protection subjects are published in thousands of copies, all schools, colleges and high schools and higher education institutions study the legal basis of the human rights protection.

However, all that has been done over the years of independence - it is only the beginning of a long and difficult way to long-term goal facing our society and the state - integrating the Republic of Uzbekistan in the number of modern developed democracies provide decent living conditions for the people and a decent place in the world community. The logic itself, the regularity of country development and the goal require continuing of democratic reforms.

Priority directions of the program for further continuation of country modernization on a fundamentally new stage of development of the state and society are reflected in the Concept of further deepening democratic reforms and formation of civil society in the country, developed by the President of the Republic of Uzbekistan Islam Karimov.

In Uzbekistan, the market reforms and economic liberalization are carried out in close connection with the consistent democratization of the political system, ensuring independence, independence of the judiciary, freedom of expression and information, freedom of choice and the development of the electoral system, as

well as the formation of civil society, increasing political consciousness, the legal culture of citizens.

In particular, in the field of democratization of state power and administration it was planned further reforming of the executive, legislative and judicial branches of government, and empowering the importance of the role of parliament in the state system, creating conditions for radically increasing the role of political parties in the formation of the executive branch, in implementing parliamentary control over their activities.

Especially large-scale work is to be done on the implementation of the principle of *"From a strong state - a strong civil society"*, strengthening the role of civil institutions. It is provided the implementation of measures to improve legislation, law enforcement practices to strengthen social partnership between civil society, local authorities and government agencies in the implementation of socio-economic programs, protection of rights, freedoms and interests of different segments of the population, creating effective legal mechanisms for public and civil control.

It is developed National action programs in the field of human rights, providing the measures for implementation of public monitoring for law observance, especially law enforcements and regulatory authorities in the field of protection of human rights and freedoms, forming culture of human rights in society.

It will be improved the legal basis and the participation of civil society institutions in resolving critical public health programs, environmental protection, employment, particularly among young people, social support vulnerable populations and other issues of great social importance.

### ***Control questions***

- 1. What is the basis of the strong economic growth in Uzbekistan?*
- 2. What is the difference between human capital theory of T. Shultz and G.*

*Becker's idea?*



3. *List the major components of the human capital structure.*
4. *Where the major right and freedoms of human were fixed first?*
5. *What personal rights of citizens are fixed in the Constitution of the Republic of Uzbekistan?*
6. *What laws are planned to pass for further strengthen the legal foundations of civil society in Uzbekistan under the Concept of further deepening democratic reforms and formation of civil society of the country?*

## CHAPTER 3. HUMAN DEVELOPMENT MEASUREMENT

### 3.1. Basic criteria of estimation of human development potential and their characteristic

Human potential - the main driving force of social progress. The structure of human development includes two levels: basic, which includes physical, mental, social health of the individual, and active, including physiological, psychological, intellectual, social and cultural potentials of individual.

It has not yet developed a clear conceptual interpretation of the term "human potential" in the economic literature. Typically, the definition «*labor potential of employee*» is used which is characterized as aggregate ability of physical and intellectual properties of employee to reach the results of its production activities in certain specified conditions and to self-improve in the process of work, solving new problems arising because of changes in production<sup>1</sup>.

*Potential* (from Latin «*potentia*» - «*force*») - a set of opportunities, sources, means, etc., which can be initiated into action, used for specific tasks to achieve these goals, the ability of the individual, society, state as whole.

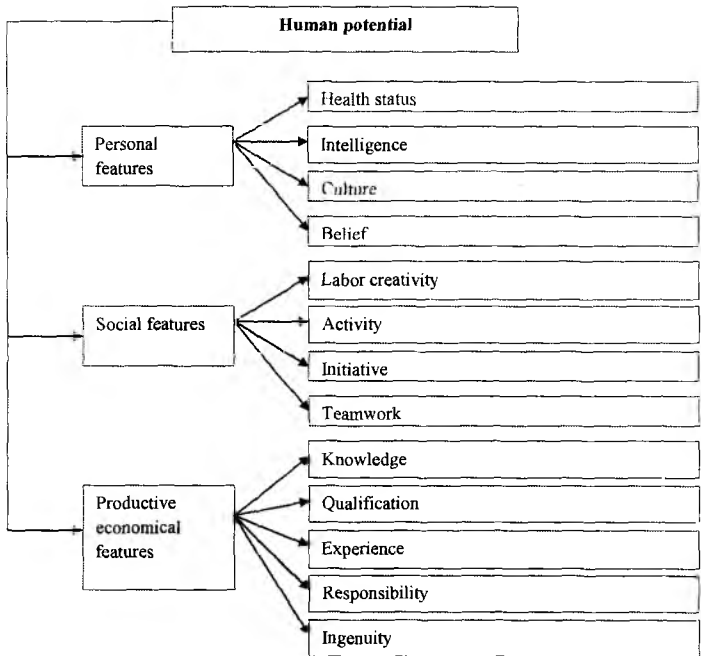
And human potential is:

- physical health; resistance to the adverse effects of natural and industrial environment, the ability to withstand long-term power and mental loads;
- socio- psychological characteristics: stability of sensations, perception of memory, thinking, language skills, temperament and character of human, its creativity, knowledge and belief, the ability of studying social experience, social activity ;
- production and economic features: qualification, social education level, professional experience, initiative and creativity, productive force (by the level of potential output), the quality and efficiency of performed works, relationships with employees, responsibility, discipline and observance of labor safety regulations,

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<sup>1</sup> Labor economy. Socio-labor relations: Textbook / Under common edition N.A. Volgina and Yu.G. Odegova. - M.: Ekzamen, 2006.- P.38.

the productive forces through the use an employee is able to create goods and services of specified quantity and quality (Fig. 3.1).



**Fig. 3.1. Features of the human potential**

The essence of human potential is in the worker competitiveness as economic basis of effective working activity. The human potential is influenced by changing socio-economic conditions, innovative processes occurring in the production. The aggregate of occurring transformations is presented as a unity of three components: industrial, institutional and informational.

The first of them is under the direct influence of technical progress and manifested primarily in a change of production means and in the corresponding change in the requirements to human potential.

The second component reflects the aggregate of status changes in the position of workers which also require transformations in the system of labor force reproduction.

Third - forms the basis system for making decision - related to the transformations in the economy and the status of human development.

The communication between components of the transformations can be represented in another way:

- first - reflects the elements, which are transformed to achieve scientific and technological progress;
- second - shows the impact of capital-labor ratio on the worker skill levels;
- third - describes the totality of information sources and streams, most of which are equally essential for the development of production, and for the reproduction of human potential.

The exposure of productive component of the economy is to change the using means and objects of labor, which determines the need of timely providing human potential.

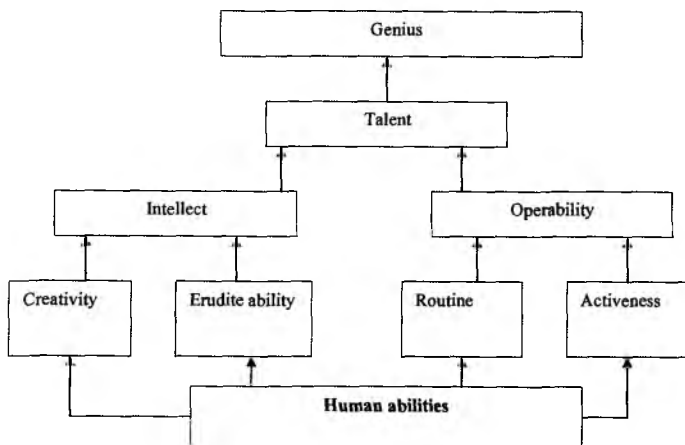
The exposure of institutional component is reflected in the expression of new or significant transformation of the existing organizational structures of production management and related forms of work organization and the mechanisms of worker behaviors associated primarily with new activities. The extent of these changes can vary significantly depending on the extent of the innovation impact, as well as the existing management system, the organization of work and the organizational culture of business entity.

The exposure of the informative component is associated with the appearance of new information sources, methods of transmission and processing. As it was noted by Dyatlov S.A., "The economic activity of people is the activity inherently and primarily informational. The products and results of the people economic activity, whether these are products, services, new technologies, methods of labor organization and production, or new trained professionals – all of them represent a certain (executed or customized) scientific knowledge, i.e. processed,

fixed and encoded information in integrated productive production forces of society in a certain way<sup>1</sup>.

Personal features of the human potential include psychophysical capacity - the ability and inclination of human. The human abilities (Fig. 3.2) are its inclination to creativity and erudite ability.

The inclination to creativity - the desire to find the most efficient way of problem's solution.



**Fig. 3.2. Human's ability<sup>2</sup>**

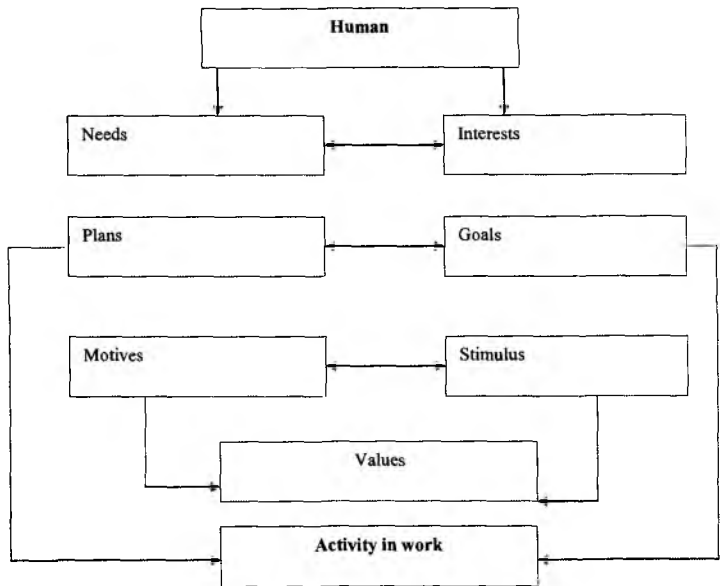
Erudite ability - the accumulation of knowledge on many different issues, helps erudite to find solution totally unexpected for many others.

The routine is manifested in the ability to observe routine order of executing monotonous operations, i.e. perform uncreative technical work conscientiously and actively.

The activity characterizes human's ability to concentrate energy to perform specific job (Fig.3.3).

<sup>1</sup> Dyatlov A. Economics of Education during the transition period. - St. Petersburg, 1995. P.81.

<sup>2</sup> Olegov Yu.G. Personnel management in structural-logic schemes. - M.: Akademicheskiiy proekt, 2005. P.78.

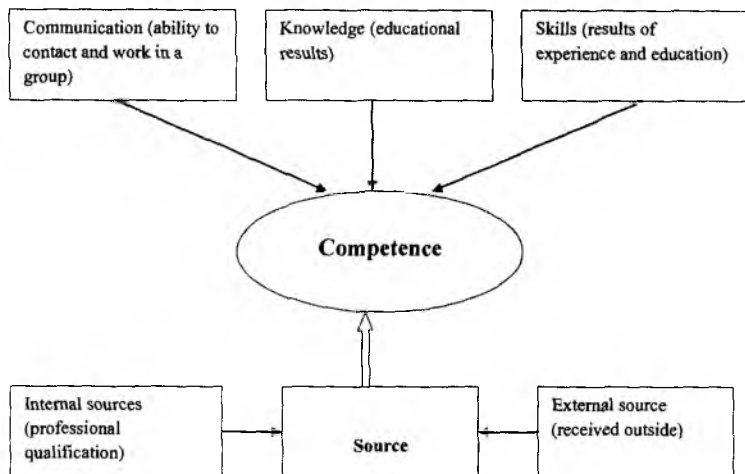


**Fig. 3.3 Human activities in work**

The activity of worker has exceptional importance in labor activity. The simple perception of need does not lead to active actions for searching ways to satisfy it. It is necessary that the need was important enough and human must be confident that it can be satisfied. Only in this case initially perceived need transforms into motive - internal stable psychological cause of human behavior or conduct.

The combination of routine and activity forms human high efficiency, using combination of creative and erudite ability create human intelligence, and combination of efficiency and intelligence form the higher possibilities of personality - the talent and genius. Talent - is high degree of talent. The difference of genius from talent is not so much in the degree of talent, but in the fact that genius creates an epoch in their activity.

Based on the foundation of human development, acquiring professional knowledge and defining functional tasks, the employee acquires competence (Fig.3.4).



**Figure 3.4 Competence in the frame of human potential**

The competence - the ability of worker to reproduce specific defined type of behavior for achievement goals of the company, when it is expected the presence of knowledge and skills. It is distinguished internal (professional qualification) and external (received outside) sources of competence.

The professional competence of worker - the most important feature. As professional competence, it is understood specific skills that are necessary in specific labor process, i.e. specific knowledge, skills and abilities to apply specific methods and techniques for solving specific relevant tasks.

There are other types of competence. Thus, functional expertise includes knowledge of technology, marketing, finance. The acquisition and assimilation of new functional knowledge is always the first prerequisite for achieving the necessary qualifications.

Mobility – one more element of human potential. This quality of the worker - his ability quickly adapt to changing production conditions, both directly to the changing job functions and places of labor application.

Typically, labor mobility is divided into:

1. On sectoral mobility - is the presence at employee the abilities necessary to transit from a single public sphere of production to another one.

2. Professional mobility - is the level of qualitative labor development that allows worker to change one certain business functions to another, i.e. change professional, working occupation or type of occupation.

3. The qualifying mobility - is the presence at the employee prerequisites for upward vertical movement on the stairs of the qualitative improvement, thereby the requirement in improvement, desire to learn new skills, i.e. early labor mobility is becoming stronger.

The innovation is important element of human potential and contributes production development together. This quality is very flexible, and it is important for him in what environment worker works, if there is innovation potential, innovative initiatives and willingness to implement in enterprise.

The effective usage of human potential depends mainly on models of economic development of one or another country. Usually the following models are defined (Table 3.1):

**Table 3.1.**

**Models of economic development**

<b>Models of economical development</b>	<b>Features</b>	<b>Countries, the model is used</b>
Agrarian	Export of agricultural production, import of industrial goods	Mongolia, Greece
Raw material	Export of raw materials, import of ready products	Russia, Iran
Technological	Import of technologies, high tech products	Japan, Singapore, south Korea
Innovative	Production of knowledge, export of technologies, high tech production	USA, Germany, Great Britain, France



1. *Agrarian orientation* of economy is aimed mainly on agricultural production. It is exported and for getting funds, the necessary industrial products are purchased abroad. In such model of economic development, the usage of human potential is the lowest, as it does not provide sufficient development of industry.

2. *Raw material orientation* of the economy is peculiar for those countries that have large reserves of natural resources, the production and export of which provide the main part of their gross domestic product. The life level in these countries, as a rule higher than in agriculture-oriented countries, but the level of development and utilization of human potential differ slightly in these countries. It happens because the basic attention is given to the development of productive industries of economy to the detriment of other sections of social and economic life.

3. In countries with *technological orientation of the economy*, despite the fact that the basic science may be developed and therefore does not provide new knowledge and technologies in economically significant scale, the human potential is used much more efficient. That is why, in such countries as Japan, Singapore, South Korea, human potential is sole source of national wealth. This wealth is based on the import of modern technology and the creation of high quality products on their basis, which then is supplied not only to the domestic market but also to foreign markets.

The development of technologically oriented economy requires workers with high human potential, reproduction of which is provided by advanced education system. At that, just literacy of population is not enough. It is also required the development of high school system, especially technical universities and professional colleges. For example, there are 13 universities for 5.0 million people in Singapore. At that, three of them are national universities, and ten are the branches of the largest universities of developed countries.<sup>1</sup>

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<sup>1</sup> Hong M. Development of human resources in Singapore// School of spirit, 2002, №6. P.4-6.

There were 15 universities in South Korea in the mid-twentieth century and now, their number has increased almost eight times.

4. The highest requirements on the quality and efficiency of human potential utilization of are required for *innovative economy*. It supposes not only wide use of modern national technology, but also creation of them based on the latest achievements of fundamental science. Therefore, this type of economy can be formed only in those countries where the development of fundamental science and education are priority in state policy and receive the necessary public support.

Exactly this type of economy is in the United States, Germany, France, Britain and other developed countries.

Table. 3.2. shows what benefits can be given for economic growth by technological development model, especially innovative.

**Table 3.2.**  
**The effectiveness of economic models (by cost of production)**

Model type	Product type	Cost per 1kg. (dollars)
Raw material model	Crude oil	0,1
	Raw wood	0,1
Technological model	Treated timber	1,0
	Cars	15 -30
	Computers	100-500
	Electronic appliances	500-2000
	Microprocessors	10000-20000
Innovative model	Aviation technology	1000-20000
	Space technology	100-500 thous.
	New medicine	1000-50000
	Artificial materials	Over 1 mln.

Today it is evident that especially how human resources are used in a particular country, what level of preparation to socially useful activity they possess and ultimately depended on all the achievements in the field of socio-economic development of state, population life level and the country's rank in the world community. Under the auspices of the UN Development Program (UNDP) a special investigation is conducted, the purpose of which was a comparative evaluation of the national wealth of different countries and regions of the world

and quantitative assessment of ratio between its main components. As such components, it was used:

- natural resources;
- industrial infrastructure;
- human potential of countries

During study it was found that 64.0 % of the total wealth, which the world community has, comes to human potential. As for natural resources and all existing world production and technological infrastructure, their share in total is only one third of total world wealth (Table 3.3).

**Table 3.3.**  
**The wealth structure in world regions (per capita)**

World regions	Total, thous. doll.	Productive potential		Natural potential		Human potential	
		thous. doll.	%	thous. doll.	%	thous. doll.	%
North America	326	62	19,0	16	5,0	241	76,0
Western Europe	237	55	23,0	6	2,0	177	74,0
Near East	150	27	18,0	58	39,0	65	43,0
South America	95	16	17,0	9	9,0	70	74,0
East Asia	47	7	15,0	4	8,0	36	77,0
Whole world	100,0 %		16,0		20,0		64,0

Although these studies were conducted in the late of twentieth century, the ratio of industrial, natural and human potentials have not changed significantly.

The potentials both production and human potential are highest In North America and Western Europe. Therefore, countries in this region have leading positions in per capita income. And the main wealth of the Middle East comes to natural potential. However, these countries have the lowest level of human development.

It can be asserted that human potential became a major component of national wealth and the most important factor for socio - economic development of each country in the XXI century.

### 3.2. Design procedure of human development index and its composite components

For many years, it was thought that the achievement of economic growth will automatically entails progress in human development and society. The basis of this approach was the idea that production generates income, and higher incomes, in turn, increase economic welfare.

Therefore, economic growth became not just a mean of ensuring development but purpose of the development. Nevertheless, some experts understood that economic growth is not an end in itself, but a mean of development. In 1955, an economist from the West Indies, Nobel laureate Arthur Lewis defined the goal of development as "*the expansion of human choices*".

The realization that economic growth is not synonymous to human development have come with the growth of socio- political instability and poverty. The experience of some developing countries showed that the position of people might deteriorate and if the production develops. In the countries rapid economic growth was observed, but inequality, underemployment population and widespread poverty maintained. Whereas other countries were able to achieve quite satisfactory level of well-being, despite small income.

It was obvious that economic growth itself cannot provide fair distribution of resources. It was occurred only in the few countries where the government deliberately took measures to increase equality, including implementing programs in the field of education and health.



**Sir William Arthur Lewis**  
(Sir William Arthur Lewis, 1915-199) - English economist, Nobel Prize 1979 "*for pioneering studies of economic development in the annex to the problems of developing countries.*"  
Major works: *Principles of Economic Planning* (1949), *The Theory of economic Growth*, 1955.

The notion, that a high rate of economic development automatically, and even more - in direct proportion - is embodied at higher level of human development and confirmed by the practice, was wrong. For human development, it is much more important how the results of economic growth are used- for the development of new weapons or food production, building palaces or providing clean water for population. Those important indicators for human development such as literacy of all citizens, equal rights for men and women do not depend directly on state revenues.

The evidence that high level of income in the richest countries does not ensure protection from human privations was the growth in crime in them, pollution, the spread of diseases, the weakening of social status.

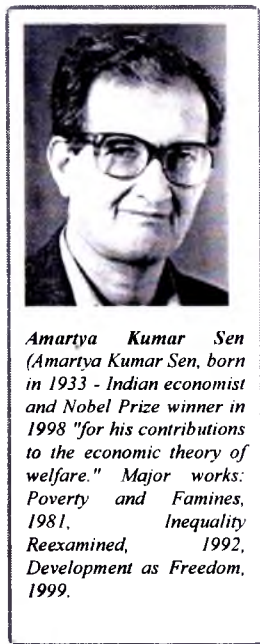
By the early 80-ies of XX century it became apparent that economic growth per se cannot be considered as value. In many countries, it was observed the slowdown in economic growth and structural crisis. In development policy qualitatively new priorities are highlighted such as reducing spending and state debt, overcoming the economic downturn. "Structural change" and liberalization of the economy-increased attention to the previously proposed human capital theory justifying the economic feasibility of investment in education, health, professional training and considering the human capital as the most important factor of production.

In response to this policy, UNICEF published a document "*Adjustment with a human face*", where the authors of report (Giovanni Andrea Cornia, Frances Stewart, Richard Jolly) not denying the importance of structural economic reforms, called for the International Monetary Fund and the World Bank to pay more attention to the problems of poverty and improve the human life conditions. A fundamental principle of this approach was that the social aspects should not just "be added" to the package of structural adjustment policies as the only change. Instead, they should be included in the new comprehensive mechanism of development, designed for long-term and focused on human needs.

In 1987, the UN Committee for Development Planning agreed to consider the human costs of structural adjustment in its report in 1988. This was stimulus for implementing researches under the direction of M. Ul-Haq, and K. Griffin and J. Knight, the results of which were published in the draft of report "*Development of human potential: the forgotten measurement of development strategies*". Later, K. Griffin together with J. Knight, published the results of this work in special issue in "Journal of Development Planning" in 1989, and republished in 1990 in form of book.

The theoretical researches of Amartya Sen, the Nobel Prize in Economics (1998), made a huge impact on the modern understanding of human development. In 1989 it was published a paper "Development as empowerment", where approach called "approach in terms of possibilities" was used. A. Sen considered the development process as a process of enlarging human abilities, and not only the increase in material or economic well-being. From his point of view, the standard of living in a society should be measured not by the average level of income and by opportunities of people to live such life, which they consider as worthy. The aim of social development, he saw not in limitless production increase, but in creating opportunities to expand people choice: the choice to make more things, live longer, escape from diseases that can be avoided having access to knowledge.

This process A. Sen linked with the expansion of human freedoms, in order to choose from a wider range of choices the most preferred are: "*One of the most important tasks of measurement system – taking into account are human values. The target "human development in the 1980s and further" cannot be realized*



**Amartya Kumar Sen**  
(Amartya Kumar Sen, born in 1933 - Indian economist and Nobel Prize winner in 1998 "for his contributions to the economic theory of welfare." Major works: *Poverty and Famines*, 1981, *Inequality Reexamined*, 1992, *Development as Freedom*, 1999.

*without consideration of this problem, and focusing special attention on expanding freedoms and opportunities that have the greatest significance for our live. To expand life frames, where inevitably by the force of circumstances the majority of people are enclosed, is the main task of human development in the world today".*

Based on the concept of A. Sen it was given the definition to development as process, where human is centered. Subsequently, this and other ideas were combined into group by UNDP experts and prepared the basis of a conceptual approach to human development, which was first presented in the *Global Human Development Report* for 1990 according to definition, the UN Development Program, "*Human Development - is the process of providing people with wider choice. Basically, this choice can be endless and changed over time. But at all levels of development the key aspects of human development are the ability to live a long and healthy life, to get knowledge and have access to the resources needed for a decent standard of living. In case if there is no access to these basic options, human will not have access to other opportunities*".

This concept considers the double approach to human development: on the one hand, this expansion of human capabilities through health enforcement, acquisition of knowledge, improving skills, on the other hand, is a process of using by people their acquired skills for production purposes, cultural, political activities and leisure. Thus, this concept does not only reduce human development resources just to the formation of productive activities and orientation for increasing material wealth.

The basic elements of the human development concept were declared in the UN Millennium Declaration. In the Declaration, it was noted that a number of fundamental values would be important for international relations in the XXI century. It includes:

*Freedom.* Men and women have the right to live and raise their children in worthy conditions, free from hunger and fear of violence, oppression or injustice. The best guarantee of these rights is a democratic form of government based on broad participation and people's will.

*Equality.* No individual and no nation must be deprived the opportunities for development benefits. Equal rights and opportunities for men and women should be guaranteed.

*Solidarity.* Global challenges must be solved in conditions of equitable distribution of the costs and burdens in accordance with basic principles of equity and social justice. Those who suffer or who live in the least favorable situation are deserved the help from those who live in the most favorable situation.

*Tolerance.* Among all variety of religions, cultures and languages people should respect each other. The differences should neither fear nor serve as a cause for persecution within and between societies, and should be cherished as the valuable property of humanity. It is necessary actively encourage world culture and dialogue among all civilizations.

*Respect for nature.* As the basis for protection and rational use of all living species and natural resources should be laid prudence in accordance with the precepts of sustainable development. Only in this way, it is possible to save for our future generations immeasurable riches, gifted us nature. The current unsustainable models of production and consumption must be changed in the interest of our future welfare and prosperity of our descendants.

*Shared responsibility.* Responsibility for managing worldwide economic and social development, as well as eliminating threats to international peace and safety, must be shared among the nations of the world and should be executed multilaterally. The central role should be played by the United Nations as the most universal and most representative organization in the world (Fig. 3.5).<sup>1</sup>

To assess the characteristics of life quality in different countries of the world, the group of UN experts, headed by Pakistani economist Mahbub ul Haq<sup>2</sup> developed integral index - *Human Development Index (HDI)*. It should be noted that the conceptual structure of the index was created using works of Amartya Sen.

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<sup>1</sup> United Nations Millennium Declaration (Adopted by Resolution 55/2 of the UN General Assembly on September 8, 2000) // <http://www.un.org>

<sup>2</sup> **Mahbub ul Haq (1934-1996)** - a prominent Pakistani economist, founder of the Human Development Report, the author of "Strategy of Economic Planning", "Thinking about human development", "New Framework for Development Cooperation" and others.



As it was emphasized by Mahbub ul Haq: "The concept of human development is the most complete model of development. It includes all development issues, including economic growth, social investments, empowering people, satisfaction of basic needs and the organization of social protection systems, political and cultural freedom and all other aspects of human life. It is not a narrowly technocratic or over philosophical. This is - a reflection of life itself".

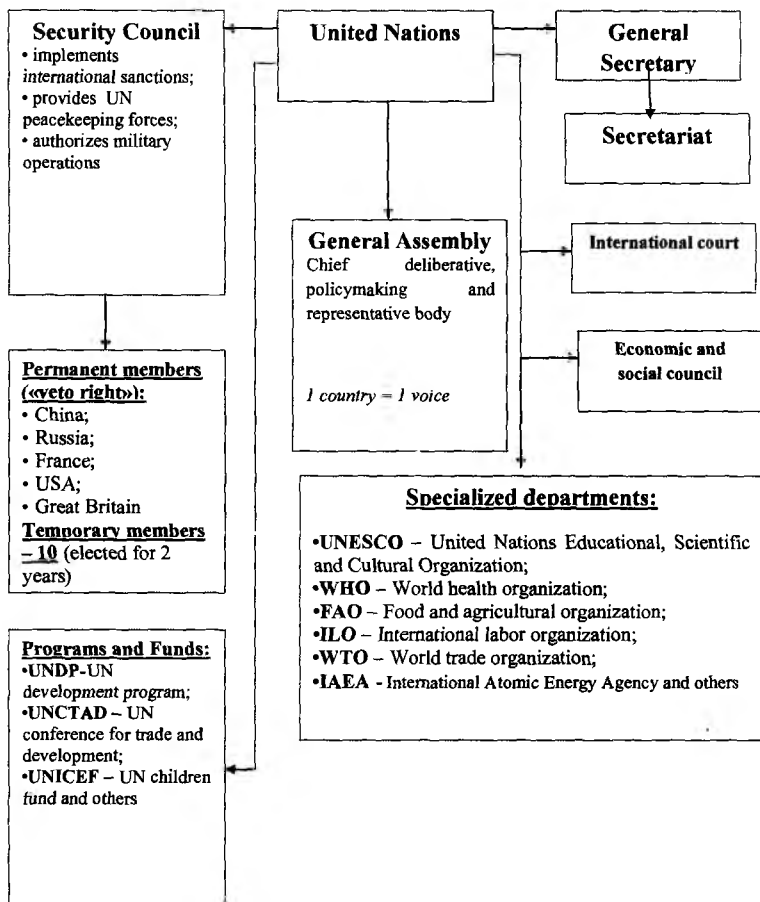


Fig. 3.5. The structure of the United Nations

At that it is necessary to distinguish the standard of living (or welfare level) and quality of life. The *living standard* characterizes the level of material well-being, i.e. degree of people's satisfaction in material needs. The average standard of living in the country is displayed such indicator as GDP per capita. A *quality of life* also includes "intangible" or not expressed in money aspects of peoples' life: their health and life expectancy, opportunities for recreation and leisure, cultural development and fulfillment, access to knowledge and other riches of spiritual culture, etc.

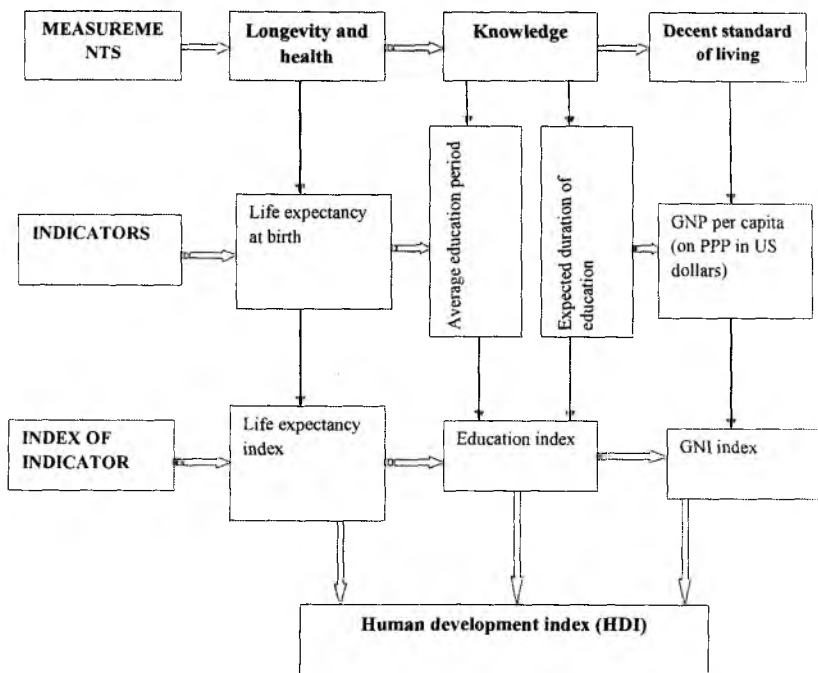
*Human Development Index (HDI)* - an integral index, which is calculated annually for cross-country comparison and measurement of life expectancy, literacy, education and longevity as the main characteristics of human potential at exploring area. It is a standard tool in the overall comparison of living standards in different countries and regions. The index is published in the UN Development Program reports on development of human potential.

The constituent elements of Human Development Index are the following sub-indexes: (Fig. 3.6):

1. Index of life expectancy, which reflects the state of health system and social security of the country.
2. Index of education level (access to education) characterizes opportunities for getting education as a reflection of the country's education system.
3. Index of life level or index of income, reflecting the level of citizen's income based on gross national product (GNP) per capita (in U.S. dollars on purchasing power parity (PPP) of national currencies).

In the Global reports on human development for the period 1990-2009, these main directions were measured by the following indexes:

1. Life expectancy at birth.
2. Adult literacy level and school education coverage (from primary school to higher education).
3. Gross domestic product (GDP) per capita on purchasing power parity in U.S. dollars.



**Fig. 3.6. Human Development Index (HDI)**

For these components, a system of indicators is calculated regularly and comparable for almost all countries of the world (Table 3.4). At that increasing of quantitative indicators shows the expansion of opportunities of choice in certain aspect of human development.

The average life expectancy at birth is used for indicators characterizing the longevity. Average life expectancy of future life at birth - The number of years that will be lived in average by one person of generation born under the condition that the mortality at each age remains the same as in the year of birth along whole life of generation. The indicator is calculated as a whole for both genders, and separately for men and women.

**Table 3.4.**

**Targets of Human development Index, used in Human development Report of 2011<sup>1</sup>**

Measurement	Recorded maximal value	Minimum value
Life expectancy at birth	83,4 (Japan, 2011)	20,0
Average education period	13,1 (Czech republic, 2005)	0
Education expectancy	18,0 (Maximal value)	0
Combined education index	0,978 (New Zealand, 2010)	0
Gross national income per capita income on purchasing power parity, in US Dollars	107 721 (Qatar, 2011)	100

The Indicator of the average life expectancy at birth is one of the most common indicators of international statistics. For countries with an average level of development, this indicator can be supplemented with the death rate of children under 5 years, and for highly ones- maternal mortality coefficient.

Indicators, characterizing education. According to the method of calculating the Human Development Index from 1990 to 2009 education was estimated in the share of literate population in ages from 15 years and older, and indicator of coverage of population in ages from 5 to 24 years. In the Human Development Report for 1995, the literacy indicator was supplemented by an indicator completeness of coverage with education. The education coverage - the ratio of total number of students at all levels of education, regardless of their age to the total population in ages of 5-24 years.

The standard of living is estimated using the gross national income per capita at purchasing power parity in U.S. dollars, instead of the earlier used gross domestic product per capita at purchasing power parity in U.S. dollars.

Living standards depends on many factors, which include:

- personal income;
- distribution of income among the population;

<sup>1</sup> Human development report – 2011. – M.: Publishing House "Whole world", 2011. P.168.

- previously accumulated property;
- access to land and credits;
- infrastructure development and mechanism of access to social consumption funds (education, health, transport, to public services, etc.);
- individual lifestyle;
- family size and structure;
- wealth produced in the household;
- climatic and environmental conditions at the place of residence, etc.

Human Development Index (HDI) is a summary indicator of human development. It displays the average achievement level of country based on three mentioned above basic indicators. HDI is the average geometric normalized indexes reflecting achievements for each measurement.

To create indexes for measurements firstly it is necessary to calculate sub-indexes for each of them. To transform the indicators into indexes with a scale from 0 to 1, it is necessary to set minimum and maximum values (targets). As for aggregation, it is necessary to use average geometric value; the maximum value does not affect the comparison (in percent) between any two countries or periods.

The maximum value is assigned to the actual observed higher values of country indicators in the time row, i.e., in the Human Development Report (HDR) of 2010 for the period 1980-2010. The comparisons will be influenced by minimum values, so these values are used properly as a subsistence level or "natural zero".

The following minimum values are set:

- for life expectancy at birth - 20 years (based on the long-term historical data);
- for both variables in education sphere - 0 years (the presence of minimum education level is justified by the fact that society can exist without formal education);
- for GNI per capita - 100 US dollars. Low value is assigned for the income indicator can be justified if it is taken into consideration significant amount of

natural and non-market production in economies that are close to the minimum level and not considered in official statistics.

After defining the minimum and maximum values, the sub-indexes are calculated as follows:

$$\text{Measurement index} = \frac{\text{actual value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}} \quad (1)$$

For education sphere the equation 1 is applied to both sub-components, as a result their geometric mean is calculated, and then the equation 1 is used again. This is equal to using equation 1 to the geometric mean of these two subcomponents.

The Human Development Index is the geometric mean of three measuring indexes:

$$(I_{\text{life}}^{1/3} + I_{\text{education}}^{1/3} + I_{\text{income}}^{1/3}) \quad (2)$$

Equation 2 provides incomplete interchangeability of all HDI measurements. Thus, it takes into account one of the most serious objections to the formulas of linear aggregation, which allows complete interchangeability of measurements. Some interchangeability inevitably is inherent to the definition of any index and raise with increasing values of its components.

Improvement of HDI methodology with new indicators and new functional forms led to significant changes. The application of the geometric mean gives lower values of the indexes and the greatest changes are noted in the countries with unequal development of changes.

The significant changes were supplemented in Human development Index in the Human Development Report 2010 (Table 3.5). As in previous HDR, in the 20th Global report HDI is composite index that measures progress in three basic aspects of human development - health, knowledge and income. In accordance with the previous formula of HDI, to measure "health" it was used life expectancy at birth. And level of education or knowledge were measured by a combination of adult literacy and school education coverage (from primary school to higher

education), income or standard of living - by GDP per capita adjusted for purchasing power parity (PPP in US dollars).

**Table 3.5**

**Changes in calculating methodology of Human development Index (HDI)**

Measur ement	HDI calculation method, used in 1990-2009			HDI calculation method, used since 2010		
	Indicators	Normalizing range		Indicator	Normalizing range	
		Minimal value	Maximal value		Minimum	Recorded maximum
Health	Life expectancy at birth (years)	25	85	Life expectancy at birth (years)	20	83,4 (Japan, 2011)
Education	Literacy level of adult population (%)	0	100	Average education period (years)	20	13,1 (Czech republic, 2005)
	School education coverage (%)	0	100	Education expectancy (years)	0	18,0 (maximal value)
				Combined education index	0	0,978 (New Zealand, 2010)
Income level	GDP per capita (PPP in US dollars)	100	40 000 (maximum possible)	GNI per capita (PPP in US dollars)	100	107 721 (Qatar, 2011)

*Health* is still measured by life expectancy at birth. At that, minimum value of life expectancy at birth was reduced from 25 to 20 years. Changing the minimum life expectancy at birth was based on long-term historical data taken from works of Maddison and Riley<sup>1</sup>, showing 20 years as the minimum value. If life expectancy at birth on society or part of society is lower of normal reproductive age, in this case this society will die. Lower values occurred during a series of crises, such as the genocide in Rwanda, but it was exceptional cases when it was not sustainable.

And access to knowledge was measured in HDR 2010:

- average period of study is measured in the average number of years for education received by persons in age of 25 years and older along the whole life;

<sup>1</sup> Maddison, A. 2010. *Historical Statistics of World Economy:1-2008 AD*. Paris: OЭCP. Riley, J.C. 2005. *Poverty and Life Expectancy*. Cambridge, UK: Cambridge University Press. Noorkbakhsh (1998); *The Human Development Index: Some Technical Issues and Alternative Indices// Journal of International Development* 10,589-605

- education expectancy, which as it is expected child can get in time of achieving officially established age for entering school, if during his life the dominant trends are remained in the sphere of indicators of population coverage with education.

Adult literacy indicator is used in the old HDI (and it is just a binary variable - literate and illiterate, without graduation) was insufficient measurement to get for a complete picture of achievements in sphere of knowledge. By incorporating the average period of school education and expected years of schooling, it is possible to get more accurate idea about the level of education and the latest changes.

The *income* level is now estimated using gross national income (GNI) per capita on purchasing power parity (in U.S. dollars) instead of used before GDP per capita (PPP in US Dollars). Gross domestic product (GDP) is the monetary expression of goods and services produced in the country, no matter how much it was remained in the country. Gross national income (GNI) expresses income accounted to inhabitants of the country, including international flows, such as money remittances and earnings coming outside deducting income received in the country, but repatriated abroad. Thus, GNI is a more accurate measurement of economic well-being of the country. As it was shown in HDR 2010, the large differences can exist between income of inhabitants of country, measured by GNI or GDP.

To compare economic statistics across countries, the data must be firstly converted to a single currency. In contrast to the market exchange rates, exchange rates of PPP (purchasing power parity) allow at this conversion to consider difference in prices between countries. Thus, GNI per capita (PPP in US Dollars) better reflects the level of people's lives. Theoretically, 1 US Dollar of PPP (or international dollar) has the same purchasing power in the economy of any country, as one U.S. dollar in the United States economy. New PPP values are used since 2008. The latest study in the International Comparison Program, based on which PPP was calculated, was held in 2005, 146 countries participated, 26 countries more than in the previous study.



It was developed and scientifically justified the generalized system of indicators characterizing the quantitative and qualitative characteristics of the socio-economic differentiation of social development, including:

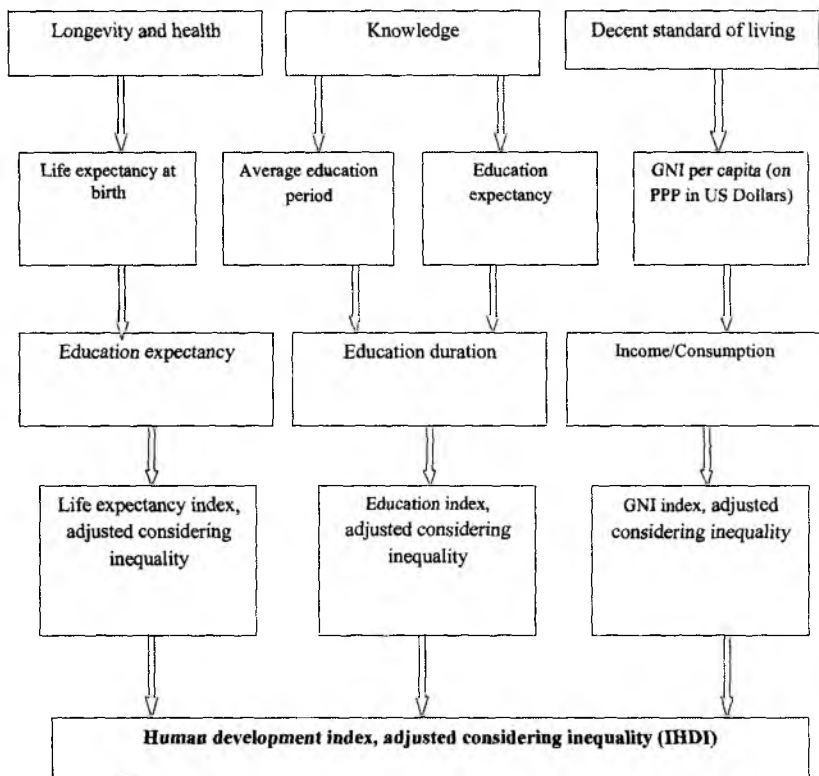
- differentiation coefficient of human potential development index, characterizing the level of differences in socio-economic development of the analyzed countries, regions in countries, and social groups;
- differentiation coefficient of health index (longevity), showing how the health state in one country, region is better than in another;
- differentiation coefficient of education index. This indicator determines the degree of exceeding education level in one country (region or other object of research) above the level of education (literacy) of the population of another country;
- differentiation coefficient of income index, which determines the degree of economic differentiation among the analyzed countries or regions;
- differentiation coefficient of mortality index as an indicator of differences in health status in compared countries or regions;
- differentiation coefficient of professional education level, reflecting the differences in coverage level of the second and third levels of education in researched countries or regions.

Three new experimental indexes were presented in the Human Development Report 2010:

*Human Development Index, adjusted taking into account inequality (IHDI)* discounts the average human's achievements on inequality in health, education and income. If there is absolute equality in society, HDI and IHDI values are equal to each other, and vice versa, as they differ more, the greater social inequality. Therefore IHDI also called "Human Development Index, taking into account socio-economic inequalities".

IHDI implements in HDI correction for inequality in the measurement of each index. It is based on class of integral indexes proposed by J.Foster, L. Lopes-

Calva and M. Szekely<sup>1</sup>. To assess income distribution and variations in the level of education and life expectancy in different groups of population, in the calculation HDIA it is used the methodology developed by the British economist E.B. Atkinson<sup>2</sup>. The Atkinson's approach to measurement of inequalities in health, education and income is used because of it is more sensitive to changes in the lower part of the scale than well-known coefficient of Gini.



**Fig. 3.7. Index of human equality, adjusted considering inequality (IHDI).**

<sup>1</sup> J.Foster, L.Lopez-Calva, and M.Szekely. 2005/ "Measuring the Distribution of Human Development: Methodology and an Application to Mexico". *Journal of Human Development* 6(1): 5-25.

<sup>2</sup> Atkinson A. 1970. "On the Measurement of Inequality". *Journal of Economic Theory* 2(3): 244-63.

*Gender Inequality Index (GII)* - a composite indicator measuring achievement inequality between women and men in three dimensions of human development: reproductive health, empowerment and the labor market.

**Table 3.6**

**Gender Inequality Index**

Measurement	Health	Empowerment			Participation in social life or social isolation
Indicators	Maternal mortality index	Women and men population having at least secondary education		The shares of women and men in parliaments	Indicators of economic activity of women and men population
	Adolescent birth rate index				
Measurement index	Women's reproductive health index	Women empowerment index	Women's economic activity index	Men empowerment index	Men economic activity index
	Women gender index			Men gender index	

Reproductive health is measured by maternal mortality coefficient and birth rate among adolescents.

Empowerment is measured by the ratio of the women number to the number of the men having seats in parliament, and the share of male and female population with secondary and higher education.

Economic activity is measured by the proportion of the participation in the labor market among men and women.

The index shows the damage for potential human development due to inequality of the achievements among women and men in these measurements. This value ranges from 0 – in case when women and men are equal - to 1 when one of the genders displays the lowest possible indicators for all measured parameters.

For maternal mortality coefficient, rate of adolescent fertility, the share of parliamentary seats occupied by women, secondary and higher levels of education and economic activity in the labor market is set to the minimum value of 0.1. Representation of women in parliament in the countries where the reported value

of the indicator is equal to 0, encoded as 0.1%, as even in countries where no women parliamentarians, women have some political influence.

Considering that increased maternal mortality demonstrates reduced level of maternal health, the maximum value of the maternal mortality coefficient is truncated at the level of 1000 deaths per 100000 births, and the minimum - at the level of 10 cases. It is supposed that the countries where the maternal mortality coefficient is higher than 1000, it is not distinguished in their inability to create conditions and provide support for the mother's health and that the countries death cases from 1-10 per 100000 live births, essentially operate on the same level, and the differences between them are random.

Gender Inequality Index replaced used gender factor development index (GFDI) since 1995 and women's empowerment index (WEI).

*Multidimensional Poverty Index (MPI)* defines insufficient satisfaction of the people of at the household level for the same three directions as the HDI: education, health, living standards and shows the average number of poor people and deprivations faced by poor households (Table 3.7).

**Table 3.7**

**Multidimensional Poverty Index**

Measurement	Health	Knowledge	Life level
Indicators	Nutrition	Education duration	Fuel for food preparation
	Children mortality	Education coverage of children	Toilet
			Water
			Electricity
			Floor
Assets			
Poverty measurements	Poverty intensity	Poverty coefficient	

Like many other indicators, requiring an international comparison, the human development index before the Human Development Report 2011 was calculated based on dates received not later than 2 years after publication by the national statistical services. However, since 2011 HDR provides information for this current year.

It becomes possible thanks to obtaining data on life expectancy at birth from the UN Department of Economic and Social Affairs. Information for average education expectancy was presented by Barro and Lee (2010); education expectancy - UNESCO Institute for Statistics, and by GDP per capita - World Bank and International Monetary Fund. For a few countries, the average education expectancy is calculated based on national representative researches of households.

Human Development Index, ultimately, is defined as the arithmetic average of the three pre-estimated x- indexes - life expectancy index, education index and the index of GDP per capita. Especially this conversion of life quality indicators to indexes, with values from 0 to 1, allows to take into account in single integral index so different and disparate indicators such as GDP per capita, education level and life expectancy.

The countries by the level of human capital are divided in the following way:

1. Countries with very high human development. In these countries, the HDI value is in the upper quartile (the first 25.0% of the countries in rating of HDI) (tabl.3.8).

**Table 3.8**  
**Countries with very high human development<sup>1</sup>**

<b>Position in world</b>	<b>Countries</b>	<b>HDI index</b>
1	Norway	0,955
2	Australia	0,938
3	The United States of America	0,934
4	The Netherlands	0,921
5	Germany	0,920
6	New Zealand	0,919
7	Ireland	0,916
8	Sweden	0,916
9	Switzerland	0,913
10	Japan	0,912

<sup>1</sup> Human development report - 2013. Raising of South: Human progress in diverse world. /Translation from Eng.; UNDP. - M., Publishing House «Ves Mir», 2013. - 212 p.

2. Countries with high human development. In these countries, the HDI value is between 51st and 75th percentile.

3. Countries with average level of human development. In these countries, the HDI value is in the range between the 26th and 50th percentile.

4. Countries with low level of human development. In these countries, the HDI value is in the bottom quartile.

HDI has become a strategic element of the concept of human potential. Human Development Index is combined measurement of health, education and income and assesses progress using broader concept of development, than one based on income solely.

Some are unhappy with its structure and composition. Others propose to extend it so that it includes more measurements, starting from gender equity to biological diversity. Many critical remarks are legitimate. But the goal is not only to create indisputable indicator of welfare, but also to redirect attention to the development, oriented to human, and contribute to the discussion about how we promote to social progress.

In general, the number of countries with value of the Human Development Index below than 25th percentile reduced from 33 to 30 in the period 1990 and 2000 and reduced in double from 30 to 15 in the period from 2000 and 2012. Overall, in 2012, HDI has not reduced in any countries, as compared with 2000, in contrast with the previous decade, when HDI in 18 countries was lower in the 2000 than in 1990. In the period from 1990 to 2012, Human Development Index has increased almost in all countries<sup>1</sup>.

UN Development Programme has set high standards for itself, aiming to identify and measure human development. Since the appearance, HDI has attracted the attention of the media, society, civil society organizations, researchers and governments around the world (table 3.9).

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<sup>1</sup> Human development report - 2013. Raising of South: Human progress in diverse world. (Translation from Eng.; UNDP. - M., Publishing House «Ves Mir», 2013. - 43p.

Table 3.9

## Human development global reports

Years	Global Reports Topics
1990	Concept and measurement of human development
1991	Financing human development
1992	Global measuring human development
1993	Participation of population
1994	New measurement of human safety
1995	Gender issues and human development
1996	Economic growth and human development
1997	Human development as a mean of poverty elimination
1998	Consumption front the point of view of human development
1999	Globalization with human face
2000	Human rights and human development
2001	Usage of new technologies for human development
2002	Deeping democracy in the fragmented world
2003	Development goals, formulated in the Millennium Development Goals: interstate agreement about elimination of human poverty.
2004	Cultural liberty in this diverse world
2005	International cooperation at crossroads: aid, trade and security in an unequal world
2006	What is hidden beyond water scarcity: Power, poverty and the global water crisis
2007/2008	Fighting climate change: Human solidarity in a divided world
2009	Overcoming barriers: Human mobility and development
2010	Real Wealth of Nations: Pathways to Human Development
2011	Sustainability and Equity: A Better Future for All
2013	The Rise of the South: human progress in a diverse world

Global Human Development Report for 2011 was named "Sustainable Development and Equity of Opportunities: Better Future for All". As it was highlighted "sustainability is inextricably linked to provision of equal opportunities - with issues of moral and legal justice, as well as expansion of access to better quality of life". Especially this change in the HDI should be considered as the main criterion of successful of socio- economic policy. In other words, the state should

not seek to increase mechanistic increase of GDP but to improve the quality of life of its citizens, expressed via HDI. Improving the life quality is a strategic goal of the state, in reality, not in words, expressing and protecting the interests of the overwhelming mass of population; and GDP growth - no more than a mean to achieve this strategic goal.

The Global Human Development Report - 2013 "The Rise of the South: human progress in a diverse world" considers the evolution of geopolitics of our time, explores raising issues and trends. The four specific areas are identified for applying efforts to maintain the impetus of development:

- provision of equality of opportunities, including gender perspective;
- extension of voting rights and political participation of citizens;
- resistance to environmental pressure;
- management of demographic changes.

This report proves that impressive transformation of large number of developing countries into large dynamic economies with growing political influence has a significant impact on the course of human development. So, reorientation of world production is being occurred in this way, and much more products are assigned for international trade: in 2001 the share of such products was almost 60.0 % of the world production. Developing countries play a major role in this: in the period from 1980 to 2010, they increased their share in world merchandise trade from 25.0 to 47.0 %, in the world output - from 33.0 to 45.0 %<sup>1</sup>.

For the last decade all countries accelerated the growth rates of its achievements in indicators of education, health and income, measured by the Human Development Index. And the rate was accelerated to such level, that none of the countries which data are available, the value of HDI has not decreased in comparison with 2000. As the accelerated rate of progress in this period were recorded in countries with lower HDI, it was observed the convergence of given index values at the global level, although progress was not similar in and between regions.

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<sup>1</sup> Human development report - 2013. Raising of South: Human progress in diverse world. /Translation from Eng.; UNDP. – M., Publishing House «Ves Mir», 2013. – 16p.



Considering particularly the countries, which in the period from 1990 to 2012, significantly increased the HDI indicators for human development measurements related and not related to income, the report explores the strategies that allowed these countries to achieve good results. In this aspect, this document introduces a significant contribution to the understanding of development, describing the specific factors of transformations in this field and offering political priorities of the future, which could provide resistance to this impulse.

According to forecasts made for this Report, in 2020 the aggregate economic product of three leading developing countries only - Brazil, India and China - will exceed the aggregate output of Germany, Italy, Canada, United Kingdom, United States and France. The significant part of this growth is due to new commercial and technological partnerships inside the South, which is also shown in the Report.

However, the key idea of this and the previous "Human Development Reports" is that itself economic growth cannot automatically lead to the progress of human development. Policy implemented in the interests of the poor population and significant investment in human potential - through greater attention to education, nutrition, health, and to the knowledge and skills required in the labor market – can help to expand access to decent work and to ensure steady progress.

### **3.3. Goals of millennium development of UNO, their tasks and indicators**

In September 2000, the Millennium Declaration of the United Nations was proclaimed. In The declaration adopted by 189 countries, States are obliged to create new global partnership to eradicating extreme poverty, and number of objectives was aimed and should be achieved by 2015, and they are known as the *Millennium Development Goals (MDG)*.

The goals in the sphere of development were developed on the basis of agreements and resolutions of international conferences organized by the United Nations for several years. First it was formulated in 1996 in the form of "international development goals in the sphere of development", and their improvement was continued.

The Millennium Declaration presented the general plan of action to achieve a global human development and human safety. And in the Goals of sphere of development the complex of quantitative criteria was offered to measure and monitor global success in achieving progress in key directions.

Full set of MDG consists of 8 goals, 18 targets and 48 indicators (tabl.3.10). Most of these problems have to be resolved until 2015, taking into account the situation prevailing in the world in the 1990s. In the framework of MDG, the countries are able to apply global goals to solve their own national problems, and MDG require taking specific measures not only by developing countries but also by developed ones, which should contribute to achieving these goals.

**Table 3.10**  
**Goals and Objectives of millennium development**

<b>Goals</b>	<b>Objectives</b>
<b><u>GOAL № 1.</u></b> Eradicate extreme poverty and hunger	<ul style="list-style-type: none"> <li>• To reduce in double the proportion of people with income less than 1 USD per day during the period 1990 and 2015;</li> <li>• Provide full and productive employment and decent work for all, including women and young people;</li> <li>• To reduce in double the proportion of population suffering from hunger during the period 1990 and 2015.</li> </ul>
<b><u>GOAL № 2.</u></b> Providing general primary education	<ul style="list-style-type: none"> <li>• To 2015 provide the opportunity to get full time primary school education for all children around the world both for girls and boys;</li> </ul>
<b><u>GOAL № 3.</u></b> Promote gender equality and women's empowerment of women rights	<ul style="list-style-type: none"> <li>• Eliminate, to 2005 preferable, gender disparity in primary and secondary education, and no later than 2015 - at all levels of education.</li> </ul>
<b><u>GOAL № 4.</u></b> Child mortality reduction	<ul style="list-style-type: none"> <li>• Reduce by two thirds over the period 1990-2015 the mortality rate among children less than 5 years.</li> </ul>
<b><u>GOAL № 5.</u></b> Maternity protection improvement	<ul style="list-style-type: none"> <li>• Reduce the maternal mortality rate by three forth in the period 1990-2015;</li> <li>• Provide overall access to services in the field of reproductive health protection.</li> </ul>

<p><b>GOAL № 6.</b> Fighting against HIV/AIDS, malaria and other diseases</p>	<ul style="list-style-type: none"> <li>• Stop spreading HIV/AIDS to 2015 and start the trend to reduction of illness;</li> <li>• Provide treatment for all people with AIDS and who need to 2010;</li> <li>• Stop by 2015 the incidence of malaria and other major diseases, and begin to reduce the incidence.</li> </ul>
<p><b>GOAL № 7.</b> Provision of environment stability</p>	<ul style="list-style-type: none"> <li>• Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources;</li> <li>• Reduce the extent of biodiversity loss by a significant reduction in the rate of loss by 2010;</li> <li>• By 2015, reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation;</li> <li>• By 2020, achieve significant improvement in lives of at least 100 million slum dwellers.</li> </ul>
<p><b>GOAL № 8.</b> Promoting global partnership for development</p>	<ul style="list-style-type: none"> <li>• Satisfy the special needs of the least developed countries, and landlocked countries and small island developing countries;</li> <li>• Develop further an open, rule-based, predictable and non-discriminatory trading and financial system;</li> <li>• Solve the problems comprehensively regarding the debt problems of developing countries;</li> <li>• In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries;</li> <li>• In cooperation with the private sector, take measures to ensure that everyone has access to the benefits of new technologies, especially information and telecommunications.</li> </ul>

MDG monitoring is carried out both in the whole UN system, and at the level of individual countries. At a general level, UN Secretary General shall report annually to the UN General Assembly on the implementation of some targets of MDG. The Report as a whole about the implementation of MDG and should be represented once in five years.

The first seven goals are complementary and are called to reduce poverty in all its manifestations, which are hunger, lack of livelihood, low level of education and health, gender inequality and environmental degradation. Although each of the objectives is important itself, in combination they are complementary and form an integrated approach to solving the problem of poverty.

For example, improving efficiency of health leads to increase students in school and poverty reduction. Increasing the educational level leads to better health of population.

Increasing incomes gives to human wider opportunities to improve their education, health, and improvement of the environment.

The eighth goal – formation of global partnership in development goals – defines the means for achieving first seven goals. Its achievement may require contribution of additional assistance from rich countries, including reducing the debt burden of poor countries and elimination of trade barriers, which will contribute to barrier free trade of goods and services.

The first Human Development Report in 1990 emphasized the fact that human development, because of its breadth and universality is common to all countries: *"Human development ... combines production and distribution of goods with the expansion and use of human abilities. It also focuses on the choice - what people should have, what they should be and what should be done in order to ensure their livelihood. In addition, human development concerns not only satisfaction of basic needs but also human development as general and dynamic process. It is equally applicable both less developed and highly developed countries"*.

It was done a lot for ten years since the adoption of the Millennium Development Goals. In the period from 1990 to 2015 the global community is on way to fulfill MDG targets of double reduction the proportion of people having income less than 1 US dollar a day. The number of people living below the internationally recognized poverty line - \$ 1.25 per day - decreased between 1990 and 2005 from about 1.8 billion to 1.4 billion people. The share of population living in extreme poverty in developing countries reduced from 46.0 to 27.0 per cent – i.e. generally around the world, this problem can be solved. This objective was achieved three years ahead of schedule, primarily due to the success of some countries with large populations: Brazil (where the percentage of the population living at income less than 1.25 USD (on PPP in constant prices of 2005), decreased from 17.2 to 6.1% in 2009 ), in China (from 60.2 to 13.1 %) and India (from 49.4 to 32.7%).<sup>1</sup>

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<sup>1</sup> Human development report - 2013. Raising of South: Human progress in diverse world. /Translation from Eng.; UNDP. – M., Publishing House «Ves Mir», 2013. – 75p.

The achievements of present time are mostly due to the huge success in Asian countries, especially in East Asia. For 25 years, the level of poverty in East Asian countries reduced from 60.0 to less than 20.0 percent. By 2015, the poverty rate in China should be around 5.0 percent, and in India - about 24.0 percent.

The share of people suffering from hunger is reduced, but the rate of reduction is not sufficient. Although the share of the world population suffering from malnutrition and hunger reduced noticeably since the early 90-ies of the last century, in the period from 2000 to 2002, the progress has slowed down. According to the latest available data, in 2005-2007 malnutrition was about for 830 million people. This is 13 million more than in the period 1990-1992.

The current rate of progress for providing general primary education is insufficient to achieve the targeted parameters by 2015. Primary school coverage in developing countries was 89 percent in 2008, as compared with 83 percent in 2000. About 69 million of school aged children do not go to school.

Almost half of these children (31 million) live in Africa on the south of the Sahara and more than a quarter (18 million) - in South Asia.

The United Nations Educational, Scientific and Cultural Organization (UNESCO) supports countries in creating high-quality primary education, covering all children, which encourages countries to adopt legal basis to guarantee the 8- 10-year continuous basic education.

The World Food Programme (WFP) provides school meals, which is a powerful incentive for parents in their decision to send their children to school, and lays the foundation for body power, which is necessary for the future of children's mental development and physical health. The program also encourages parents to ensure that more girls from their families attend school.

Gender inequalities in education noticeably smoothed out, but imbalances remain significant in higher education and in some developing regions. In recent years, the enrollment of girls' primary and secondary school education has increased significantly. But there is a strong inequality in access to higher

education issues. Poverty is the main cause of unequal access to education, especially for girls of secondary school age.

Despite the occurred improvements there are still more men than women at paid jobs, and women often do insecure and unstable operation. Even if women's work is paid, they get usually less than men, and have less financial and social securities.

Globally, only a quarter of middle and senior managers - female. Women gradually acquire political weight, but it has occurred due to the allocation of quotas and other special measures. From 1995 to 2010, women's representation in parliaments in the world has increased from 11 to 19 per cent, 73 percent of growth, but it is still far to gender equality.

The growth of women representation in the executive branch even less. In 2010, only nine of 151 elected heads of states and 11 of the 192 Heads of Government were women. Globally, women occupy only 16 percent of ministerial positions.

In many countries, major improvements are planned in the prevention of children mortality. Almost one third of the 49 least developed countries in the last 20 years are able to reduce mortality in the ages below 5 years by 40.0 percent or more percent. Nevertheless, the rate of improvement is still far behind the rates required to execute MDG targets of reducing child mortality by two thirds by 2015. Noticeable improvement has been achieved worldwide in matters of routine immunization against major diseases.

New data demonstrate some success in matters of maternal health - the health of women during pregnancy and childbirth - and some countries were success in significant reduction maternal mortality level. But the rate of improvement are still far behind the scheduled annual reduction, required for performing MDG targets for reducing maternal mortality by three quarters by 2015.

Global measures for fighting against AIDS demonstrate tangible progress towards to achieving the Millennium Goal № 6. Number of new HIV infections

steadily reduces from a peak of 3.5 million in 1996 to 2.7 million in 2008. Also the mortality from AIDS-related illnesses decreased from 2.2 million in 2004 to 2 million in 2008.

External financing efforts to combat malaria has increased substantially in recent years and in 2009 reached 1.5 billion US Dollars, but is still far required indicators of planned MDG targets for malaria.

Tuberculosis remains at the second place among causes of death after HIV, but its prevalence reduces in many regions. According to data of 2008, there were 11 million people with tuberculosis. However, for the period from 2004 to 2008 the number of new cases has fallen from 143 to 139 per 100 thousand people. The maintenance of current trend will mean that the task of the Millennium Development Goals to stop spreading tuberculosis and the beginning of the reduction of incidence was already reached in 2004.

If current trends continue, the problem of supplying the population with drinking water will be executed or even exceeded by 2015. By that time, 86.0 percent of people in developing regions that much more 71.0 percent based on data of 1990 will get an access to improved drinking water sources.

Mankind could not accomplish the task of slowing the loss of biodiversity by 2010. At present, almost 17 000 species of plants and animals are threatened with extinction, and the number of such species is increasing day by day.

Global partnership in goals of development provides a solution of special needs in the least developed countries. This includes:

- duty-free and quota-free access to exported goods by them;
- enhanced program for facilitating debt burden of the poorest countries with huge debts;
- elimination of official bilateral debt;
- more intensive official assistance to countries which undertake measures to reduce poverty.

Furthermore, it was planned to assist in solving the special needs of small island developing states, not having seaway access.

In cooperation with pharmaceutical companies, provide developing countries the availability of essential drugs.

In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Finance ministers from the Group of Eight in June 2005 in London agreed to provide the World Bank (WB), International Monetary Fund (IMF) and the Asian Development Bank (ADB) sufficient funds to repay part of the debt of the countries of HIPC (group of poor countries with huge debt) in the amount of 40-55 billion dollars. This would allow poor countries to redirect the savings due to the forgiveness of debt, funds for social programs to improve the health and education systems, as well as poverty reduction.

With the financial support of the Eight, WB, IMF and ADB, it was created multilateral debt relief initiative (MDRI). The initiative complements the HIPC, giving each country that achieved objectives of HIPC, 100% forgiveness of multilateral debt. Countries that have reached the point of decision were entitled to full debt forgiveness once their lender confirmed that the country continues the reforms made in the status of HIPC group member. Other countries that reach the completion point later automatically receive full forgiveness of their multilateral debt under the MDRI.

While the World Bank and ADB implement initiatives only for countries that fulfilled the program of HIPC, the International Monetary Fund set slightly wider criteria to fulfill its own unique requirement of "unified approach". Any country with an annual income of 380 dollars or less per capita gets right to the full repayment of the debt, according to the Initiative (MDRI). The IMF has established a limit of 380 US dollars, because this amount is almost equal to the amount in countries eligible to join the HIPC.

Donor countries are obliged to increase official aid to 146 billion US dollars. Currently, according to forecast, the volumes of official assistance in 2010 were about 126 billion U.S. dollars. This deficit is primarily because of aid to African



countries. The volumes of aid of most donor countries are still far below the UN target, the planned target 0.7 percent of gross national income in these countries<sup>1</sup>.

Human development needs for their own goals, such as literacy or basic education for all. It should be also the overall goal - the main reference point of development. Development goals, including the Millennium Development Goals provided the development and implementation of national development strategies based on realistic budgets to achieve these goals.

Up to present time it was created about 700 regional, national and local Human Development Reports. In preparing these reports, authorities and other sides are actively involved.

Definition of human development as the empowerment of human choice is fundamental, but not sufficient. The procedural principles such as social justice, stability and human rights respect are basically important.

Human rights include economic, social and cultural rights as well as civil and political liberties. Human Development also covers these problems. Performance of human rights is developed by establishing basic indicators and progressive goals, developing strategies for the implementation and monitoring, as well as the modernization of legislation. Thus, human development contributes to the implementation of human rights through constant attention to the relationship between the objectives, priorities and strategic compromises.

Human development is concluded in gradually accumulating positive results and in opposition to the processes that impoverish human. As long as the achievements can be fragile and easily reversible, it is necessary to apply special efforts to ensure long-term achievements in the field of human development for individuals, groups and nations.

### ***Control questions***

#### *1. What are the features of human potential?*

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<sup>1</sup> Report on execution of goals in development sphere, formulated in Millennium Declaration, for 2010 // mdgs.un.org

- 2. Describe the models of economic development.*
- 3. What is the difference between GDP and GNP?*
- 4. What indicators are used in the determination of the Human Development Index?*
- 5. What is the human development index in countries with an average level of development?*
- 6. Tell about the Millennium Development Goals.*

## CHAPTER 4. EMPLOYMENT IN HUMAN DEVELOPMENT CONTEXT

### 4.1. Interrelation between employment and human development

The role of employment in the formation of economic basis of human development is extremely important. For most people in the world work is a source of livelihood for themselves and their families. For many, job loss can stop their development. The employment status affects the subjective feeling of people.

From the point of view of society, effective employment, providing the necessary income to working population creates economic foundations of human development and that allows the state to focus its efforts on supporting and protecting vulnerable and disabled people and on this basis, create conditions for equal opportunities for all members of society.

In economic theory, *employment* is treated as a "level of involvement of the economically active population in the economy".

The Law of the Republic of Uzbekistan "On Employment" it is determined that "Employment - is human activities associated with the satisfaction of their personal and social needs, giving them income (earned income) not contradicting the Constitution and laws of the Republic of Uzbekistan"<sup>1</sup>.

At present time in addition to employed population, together with all of employees, students and military personnel classified as citizens, the self-employed are added. Unemployed population includes:

- voluntarily unemployed;
- forced unemployed (job seekers themselves, job seekers through employment services; unemployed).

The experience of countries with developed market economies showed that full employment understood as a total employment is unattainable. In a certain sense, the existence of free labor force in the labor market is a necessary condition for the expansion and development of production, delivering additional demand for

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<sup>1</sup> The Law of the Republic of Uzbekistan «On employment», art. 2. //http:// www.lex.uz

labor force. Therefore, under such employment it is understood the employment in the presence of so-called "natural" rate of unemployment, which does not interrupt the stability of the economy.

The level of employment affected the ratio of supply and demand for labor force. The demand for labor force in the conditions of free competition is formed by two main factors: real wages and the cost of the marginal product of labor (labor product produced by the last hired worker). The labor supply depends directly on the remuneration level: the higher the salary, the higher the level of labor supply.

According to the classical model of economic theory (A. Smith, D. Ricardo, A. Marshall, J.M. Keynes and others) based on supply and demand in the labor market it is stated an equilibrium labor price (wages) and a certain level of employment in the labor market. If wage level due to any reason increase, and the value of supply will increase because an additional number of persons will appear at the labor market who previously were not agree to work for these wages. However, the demand for labor will be reduced because it will not be profitable for employers to hire labor because of high cost. Labor force supply exceeds the demand for it, which will lead to higher unemployment.

If wage level decrease, it will be profitable for employers to hire additional workers, what will increase the demand for labor. However, labor supply will decrease due to those who are not satisfied with the level of wages. As a result, at the labor market demand will exceed supply, and there will be a shortage of labor force. According to this approach, unemployment is voluntary, as it is connected with the reluctance of employees to work for low, in their opinion, wages. The main factor in the fight against unemployment is reduction of wages.

It is well known methodological approach to effective employment, developed by classic of economic theory J.M. Keynes. He argued that an effective employment is always less than complete. J.M. Keynes proposed the formula of effective demand:

$$F(Dw) = \sum Nr,$$

where  $F$  - function;

$Dw$  – effective demand of the national economy;

$N$  – employment (number of persons);

$r$  - industry<sup>1</sup>.

This formula is explained by the author that workers offer labor force in exchange for money and make demands for goods in exchange for money. Companies offer products and present a demand for labor force in exchange for money.

In modern neoclassical model of labor market, the expenses for education are considered as investment in human capital by analogy with investment of companies in machinery and equipment. The wages is profit for these investments. According to this model, the price of labor responds flexibly to market needs, increasing or decreasing depending on supply and demand. Investment in skills will continue as long as the rate of profit on these investments does not begin to reduce. If the labor market reached price equilibrium, the unemployment rate is not possible.

The basic model of the labor market is the labor market with perfect competition. The main condition of perfect competition is a large number of independent, competing buyers and sellers. In the process of price competition and service labor costs are set at a level at which demand equals supply.

Price at which demand equals supply, called the equilibrium and the market in which the price fluctuates around an equilibrium level - the equilibrium market.

Based on the abovementioned, it should be noted that the demand for labor is dependent on:

- business conditions and the economic cycle;
- technical level of production;
- the situation in the sphere of investments;

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<sup>1</sup> J.M. Keynes General Theory of Employment, Interest and Money. – M.: Progress, 1978.- P.36.

- formed wage level;
- tax policy.

Labor force supply, in turn, depends on:

- demographic situation (number and demographic composition of the population );
- internal and external migration of the working population ;
- wage level;
- the alternative labor cost, opportunities of *getting income* from other sources, out of hired work.

With all the existing theories of employment it is still remained unresolved questions about the permissible unemployment level, when this phenomenon becomes a socio- economic problem.

*Unemployment* - social phenomenon, suggesting lack of work at people that form the economically active population. Under the current law in the country "unemployed able-bodied persons are recognized at the age of 16 years to the period of getting pension, who do not have work and income (earned income), registered at the state employment service as job seekers, ready to work, ready to study or training and those ones to whom this service does not made offers of suitable work"<sup>1</sup>.

According to the definition of the International Labour Organization the category of the unemployed includes "people of age 16 and over, who during considering period:

- not employed (or have activity giving income);
- ready to work;
- looked for job<sup>2</sup>.

F.A. Hayek considers the current unemployment direct inevitable consequence of full employment policies performed before in the spirit of Keynesianism<sup>3</sup>.

<sup>1</sup> The Law of the Republic of Uzbekistan «On employment», paragraph 3. //http:// www.lex.uz

<sup>2</sup> Resolution if 13<sup>rd</sup> International Conference of labor statistics, related to the statistics of economically active population employment, unemployment and partial employment (October 1982). Item 10. // http:// www.ilo.org

<sup>3</sup> F.A. Hayek Society of free/ Translation from Eng. – M., 1990. P.93.

Insufficient demand and usually is not a primary source of unemployment (except for the periods of monetary contraction), which itself can cause an absolute reduction in aggregate demand and increase. The increase of consumer demand (including the economic agents of the labor market) begins with the revival of investment activity. The investment should be continued even if high level of employment is achieved.

There are numerous approaches to the classification of unemployment. But usually it is marked common, frictional, structural and cyclical unemployment (Table 4.1.).



**Friedrich August von Hayek** (*Friedrich August von Hayek; 1899-1992*) — Austrian economist, philosopher, Nobel Prize Winner (1974). Main works: *The Theory of Money and Credit, 1912, The Prices and Production, 1931, The Pure Theory of Capital, 1941, The Fatal Conceit, 1988*

**Table 4.1.**

### Unemployment classification

Forms	Definition	Causes
General	Inability of working people of working age desiring to work to start the employment.	Labor productivity growth, intensification, structural reorganization of production, the decline in investment, overproduction of goods and services, etc.
Frictional	Searching jobs because of firing in connection with the distribution of labor resources in a dynamic economy or voluntary job changing.	Growth of fluctuations, undifferentiated sectoral policy, mismatch of labor costs to wage, labor migration and regional changes in demography.
Structural	Relatively long-term, due to the transition to new technologies, the need in new level of qualification.	Closures of outdated production, conversion of military-industrial complex, poor services, lack of alternative employment, self-employment.
Cyclical	Production slump	Aggregate demand for goods initially affects employment and indirectly - on unemployment (lack of demand).

Natural rate of unemployment - the economic hypothesis that for the general economic equilibrium, formed at defined real wage, there is a partial employment, which is the result of lack of information, mobility barriers, demographic change and other consequences of imperfect markets. For these reasons, it is impossible to reduce the unemployment rate to zero, but only to reduce it to the level defined by imperfect markets. Thus making influence on the level of such unemployment in narrow time frame is not possible, but only slowly using regulatory or structural policy.

For example:

- development of technologies that facilitate the search of work;
- the introduction of the minimum wage;
- the introduction of so -called *efficiency wage*, higher than the market.

According to the Friedman's theory the natural unemployment is specific for each economy in accordance with the macroeconomic equilibrium in which the expected rate of inflation is equal to its actual level. According to his assertion, at any time there is a certain level of unemployment compatible with equilibrium in the structure of real wage rates. At this level of unemployment, the rates of real wages tend to

grow at certain "normal" rate, i.e. the rate which can be maintained continuously until the investment, the introduction of technological innovations and other processes remain on their long-term trajectories. If the state is trying to increase employment levels exceeding natural limits within given conditions, the first response is price increases.



*Milton Friedman (Milton Friedman, 1912-2006) — American economist, Nobel Prize winner 1976 «for achievements in field of consumption analysis, monetary theory history, and for practical display of complexity of economic stabilization policy». Main works: The Role of Monetary Policy. 1967, Money and economic development, 1973.*



One of the most important indicators is the level of unemployment. It shows the ratio of the quantity of all working people (economically active population) and unemployment and is calculated as follows:

$$U_T = \frac{U_w}{TIF}$$

where:

$U_T$  - unemployment level;

$U_w$  - number of unemployed;

$TIF$  - economically active population.

A.M.Okun<sup>1</sup> was developed law (*Okun's law*), which proving the empirical relationship between the rate of unemployment and GDP growth rate. In early 60-ies of XX century the calculations are made by scientists in the United States have shown that excess of unemployment at 1.0% above the natural unemployment rate increase real GDP compared with potential on 2.5%. But practice shows that Okun's law does not always work, i.e. is not universal economic law.

Some economists believe that the unemployment rate in the range of 4.0-5.0 % can be considered economically acceptable, "natural" and social security is not a problem. "Natural" is supposed the rate of unemployment, which corresponding to acceptable in the given conditions of employment.<sup>2</sup> This means that the natural unemployment is strictly defined by demand for labor force.

Regulation of employment - a set of measures of state direct and indirect exposure on the labor market in purpose to achieve given goals. The goals of employment regulation reflect normative condition of labor market, which should be achieved by solving actual problems.

There several levels of employment regulation:

- state level, where fundamental social and economic problems of society are solved, and the majority of taken decisions affect the employment;

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<sup>1</sup> Arthur Melvin Okun (*Arthur Melvin Okun*, 1928—1980)— American economist, author «Okun's Law». Main works: *The Political Economy of Prosperity*, 1970; *Prices and Quantities: A macroeconomic analysis*, 1981

<sup>2</sup> Fischer, S., R. Dornbusch, R. Schmalensee *Economics*. – M., 1993. P.602

- regional level which is in the competence of local authorities and capabilities of relevant budgets, where it is taken the decisions on the regulation of the labor market, including the issues of holding mass liberation, expansion of social assistance for the unemployed and others;

- local level, where it is conducted relationships of labor market subjects, particular person with the employer, Employment centers, local executive authorities.

The economic theory since the time of the classics point four possible ways to increase employment:

- 1.Improvement management of economic activity, improving the reliability of strategic planning and due to this reduction of frictional unemployment.

- 2.Provision of worthy real wages, for which it is possible to work additionally that reduce voluntary unemployment.

3. Increasing marginal physical productivity in industries producing goods, the price of which depends on the usefulness of money wages.

4. Increasing prices for goods purchased not by employees but by their employers.

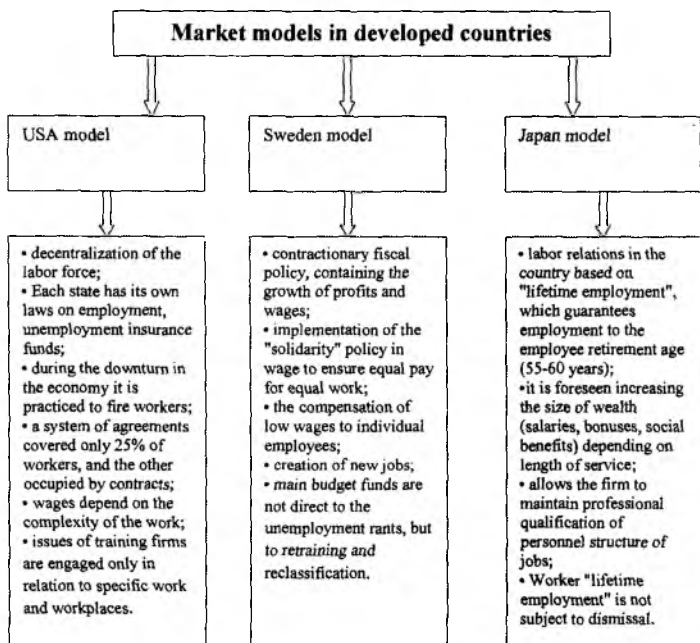
The main factors influencing the dynamics of supply and demand in the labor market are:

- demographics, including population, the share of economically active population, its mobility, etc.;

- social, which include standards of living, social structure, the development level of social partnership, etc.;

- legal and organizational, i.e. characterizing the role of public institutions in the organization of labor and employment, readiness and quality of the legal framework and labor sphere of business, etc.

Based on the differences in the recruitment of labor force, reproduction and upgrade human capital, historical traditions, and others it is distinguished models labor markets of USA, Sweden, Japan (Fig. 4.2).



**Fig . 4.2. Features of labor market models in developed countries**

Thus, the U.S. labor market model is characterized by high activity of the labor market subjects, encouraged by government policies support of the competitive status in the economy. In this country, it is dominated by external (national) market, which is characterized by openness, accessibility, competitiveness for all employees.

But the domestic market is more typical for Japan. Its distinguishing feature is a system of lifetime employment, which guarantees employment for the entire period of worker's employment. Such employment policy allows companies and businesses to invest more in human capital, not worrying that highly professional worker can move to other ventures and investments in their training will be in vain.

The Swedish model has an active employment policy conducted by the government. This activity is expressed, especially in providing considerable financial resources for programs to support employment, labor force training, increasing its competitiveness.

For the employment of the economically active population, the state regulates labor relations. The following types of state regulation of labor relations are used the most:

- legislative establishment of minimum standards in hiring;
- hours of work , wages , salaries and benefits;
- legislative provision of standards in the field of working conditions and safety;
- legislative restrictions and access control of persons to certain occupations;
- regulating the relationships between employers and employees on the basis of civil rights and labor legislation.

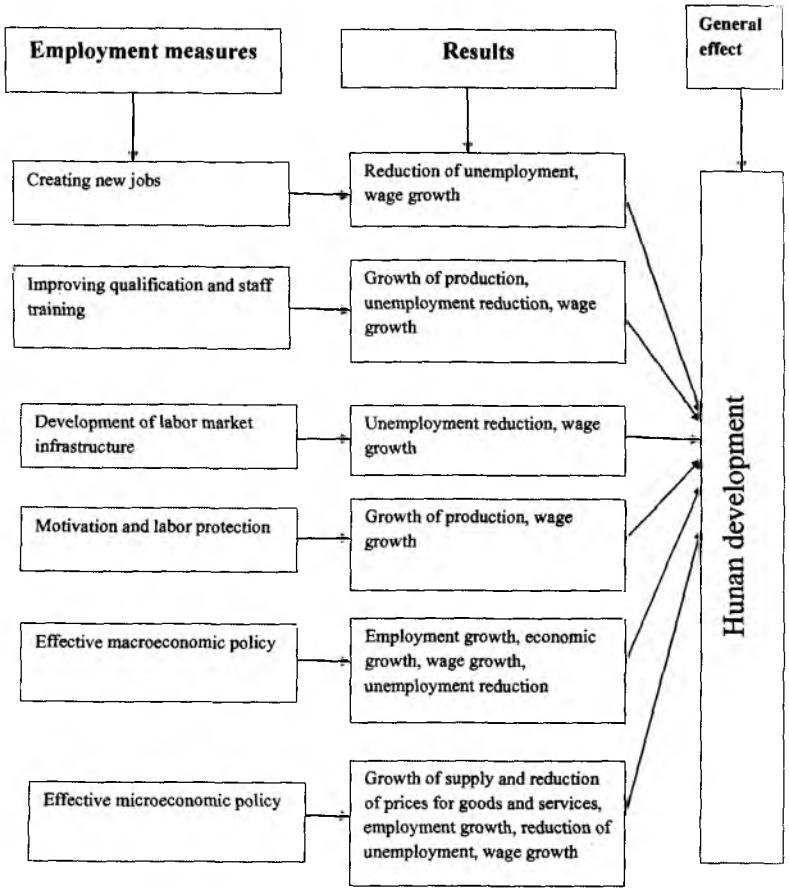
Employment - an important condition not only for macroeconomic stability and welfare of society, but also the main factor of human development (Fig.4.3).

As you know, in terms of extensive economic growth the main attention is given to employment of people in the general and level of education, qualification of workers, labor force are moved to the background. The extensive growth is ensured by the involvement of the unemployed in the labor processes.

But under current conditions the innovative economy is formed based on knowledge and technological advances in many countries. In this model, intensive economic growth is determined largely because of investment in human development. Because of this, in addition to economic growth the rate of literacy also grows, education coverage, quality of labor force, i.e. human development progresses.

The disproportion between the demand and supply of labor force in the labor market has a negative impact not only on economic efficiency, but also on human development. Underemployment, unemployment growth slows economic

growth affects the imbalances in the economy, increase load on the state budget and on the social security of population.



**Fig. 4.3. The relationship between employment, economic growth and human development**

Therefore, the employment in terms of the concept of human development is key important. Human performing labor activity receives the income necessary for worthy existence and choice. The income received from labor activity allows a

human to not only implement their potential, but also to invest in individual human development - in education, health, quality of life.

At the same time, labor activity allows each working employee to realize accumulated human capital, which in turn increases economic growth.

#### **4.2. Manpower and its structure**

The production of wealth is impossible without natural, human, industrial, financial, informative and other resources. The main productive force of economic development is not all the population, but only that part which has a set of physical and spiritual abilities, allowing work. This part of the population of working age is the *human resources* (Fig. 4.4).

The value of the labor resources depends on the officially established age limits - upper and lower levels of working age, the share of able-bodied population of working age, the number of population participating in the social activities from people out of working age. Age limits are established in each country by the acting legislation.

Under acting labor legislation population, Uzbekistan's population is divided into three groups based on ability:

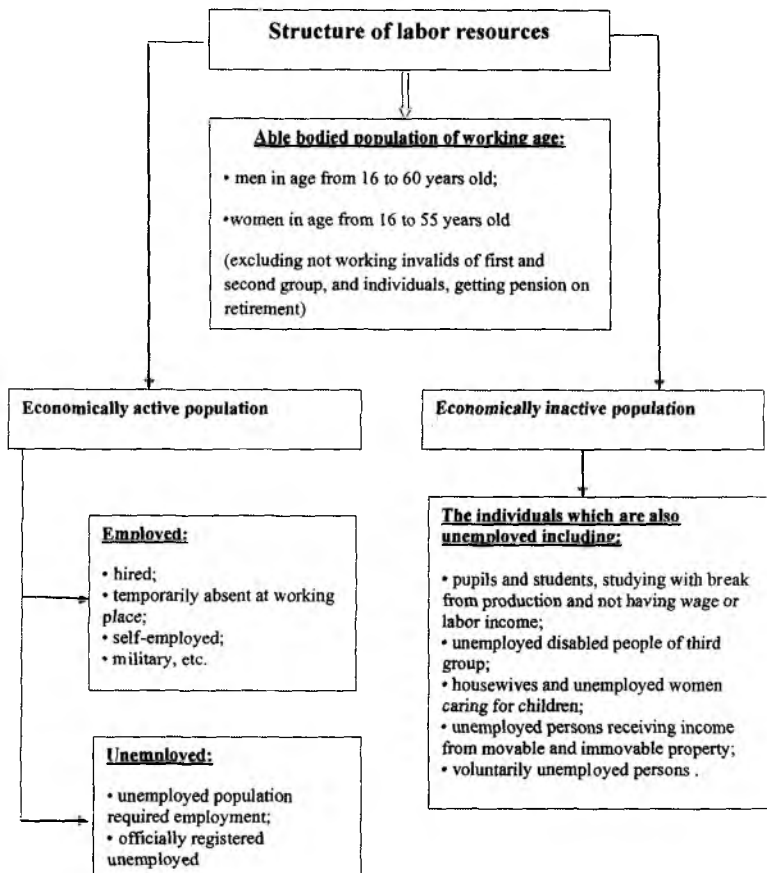
1. Younger than working age (0-15 years).
2. Working age (for men - 16-59 years, women aged 16-54 years).
3. Older working-age population (men 60 years and older, women - 55 years).

The term "human resources" is often used as a synonym of labor force. However, at the present time based on method of the International Labour Organization (ILO) the term "human resources" is replaced by the category "economically active population".

In the international standards, the term "economically active population " is used as the fundamental concepts and covers both genders, offering their labor to produce goods and services during a certain time and included in the system of national accounts and balance sheets of the United Nations . These standards

provide two measurement of economically active population (though other options are not excluded):

- “usually active population” - applicable for long time, for example a year;
- “population currently active” – applicable for the short length of time, for example, week or day.



**Fig.4.4. The structure of the labor force**

There is "economically inactive population ", this category covers students of day time studying, people receiving pensions, persons engaged in housekeeping, and individuals stopped looking for job, those who do not need to work.

According to the legislation of the Republic of Uzbekistan "*Economically active population*" - employed and unemployed citizens.

*Employed citizens:*

- employed, including those performing work for compensation within part-time work or at home, as well as having other paid work, including temporary work;
- temporarily absent from work due to illness, vacation, retraining, advanced training , suspension of production, as well as in other cases where, in accordance with the legislation the working place is reserved for temporarily absent worker;
- self-employed, entrepreneurs, including engaged in entrepreneurial activities without forming a legal entity, members of cooperatives, farmers, persons engaged in personal subsidiary and farmer households directly engaged in livestock production, production and sales of livestock and other agricultural products, as well as family members of these categories of people involved in the production;
- serving in the armed forces, bodies and forces of the National Security and Internal Affairs, as well as alternative service;
- working in public associations and religious organizations carrying out their activities in accordance with the law.

The unemployed are: unemployed population required employment and officially registered unemployed.

*Unemployed population required employment (unemployed)* - persons officially registered as unemployed in accordance with the legislation, as well as temporarily unemployed people of working age who do not have paid work or gainful employment , self- seekers and workers ready to start, once the work will be offered.



*Officially registered unemployed* – individuals of age 16 to the period of getting the right for pension, which do not have a job, earnings or income, but registered at labor authorities as job seekers, ready to work, to pass training and retraining and vocational development.

The number of persons required employment (unemployed) is determined by subtracting from the number of labor resources the number of employed and the economically inactive population by the formula:

$$UP = HR - E - EIP,$$

where: *UP* - unemployed population required employment (unemployed);

*HR* - human resources;

*E* - employed ;

*EIP* - economically inactive population.

The methodology of the International Labour Organization for defining the labor forces also provides classification of population older than certain age (working age population) and not younger of certain age. In turn, the working-age population is divided into the currently active population (labor force) and the currently inactive population for present moment. The labor force consists of employed and unemployed (Fig. 4.5).

Uzbekistan developed methods of measuring workforce<sup>1</sup>. The labor force is defined as the sum of the working population of the working age and number of employed younger and older people of working age by the formula:

$$HR = ABP + WTR,$$

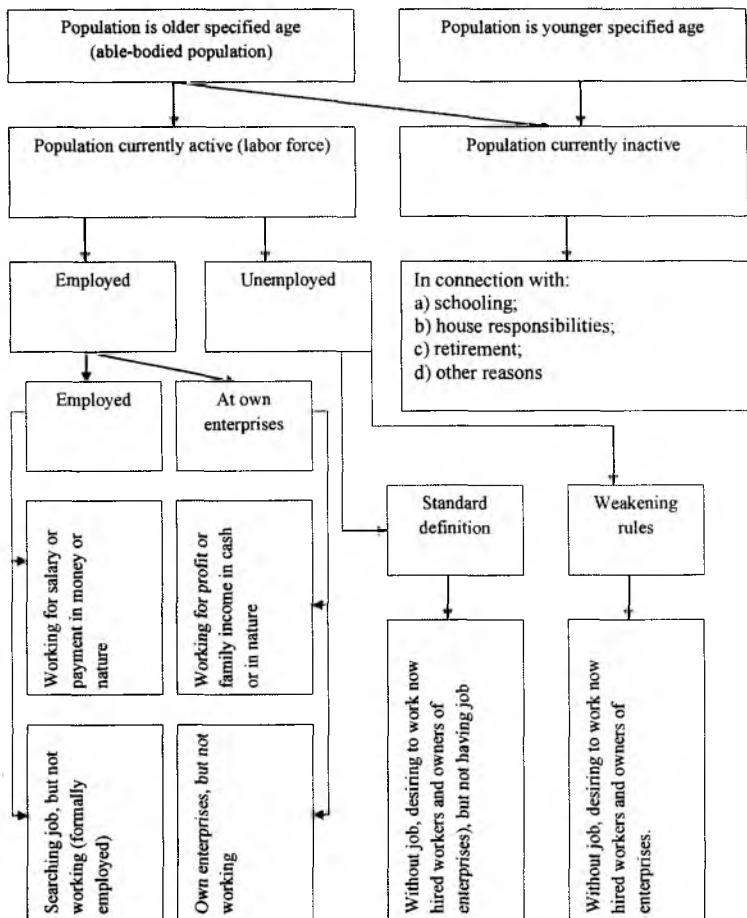
where: *HR* - human resources ;

*ABP* - able-bodied population of working age;

*WTP* - working teenagers and pensioners.

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<sup>1</sup> The Decree of the Cabinet of Ministers of the Republic of Uzbekistan "On improvement of accounting methods of unemployed people required employment" // Collection of Legislation Acts of the Republic of Uzbekistan, 2007, № 21, p.216; 2010, № 13, art. 96.



**Fig.4.5 . Manpower according to the method of the International Labour Organization<sup>1</sup>**

The number of able-bodied population of working age is determined by subtracting from amount the population of working age (men aged 16 to 60 years and women aged 16 to 55 years) the number of invalids of the first and second

<sup>1</sup> Labor economy: socio-labor relations. Textbook. – M.: Ekzamen, 2006. - P.35.

categories, as well as persons of working age receiving pensions on favorable terms:

$$ABP = M_{(16-60)} + F_{(16-55)} - Inv - Pl,$$

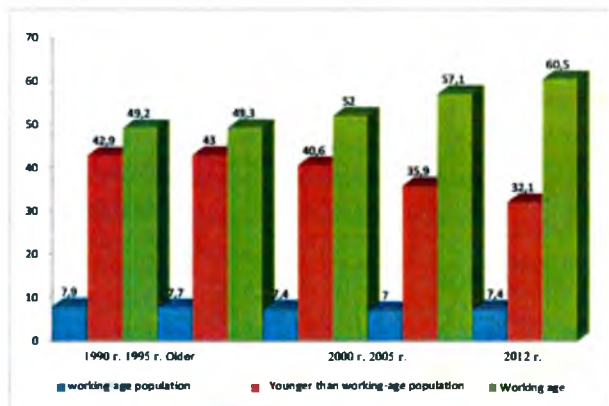
where:  $M_{(16-60)}$  — men aged 16 to 60 years;

$F_{(16-55)}$  — women aged 16 to 55 years;

$Inv$  - invalids of the first and second categories of working age;

$Pl$  - able-bodied age pensioners receiving pensions on favorable terms.

Positive demographic processes taking place in Uzbekistan, promote the optimization of the age structure of the population. The state keeps the status of the state with a young population: the average age is 26.9 years (Fig. 4.6).



**Fig. 4.6. Dynamics of changes in the age structure of the population of the Republic of Uzbekistan (in % of total population)**

Labor resources have quantitative and qualitative certainty, forming absolute measure in the aggregate, predetermining the labor potential of society. Initially labor resources exist in the form of the potential labor force, having the physical

and mental abilities that are not manifested out the labor process. Only in the process of labor activity the labor resources become labor force.

The quality of labor significantly affects the pace and quality of economic growth. Productive capacity of the labor force, in addition to psychological and physical features of workers, a number of parameters is included that determine its suitability and capability for highly effective labor. This level of general and special education accumulated and passed productive experience and cultural norms of behavior from generation to generation. It is clear that the productive capacity of the labor force in particular country is largely determined by the socio-economic policy of the state.

Labor resources considered in quantitative and qualitative measurement, represent labor potential, which in turn has quantitative and qualitative aspects.

The quantitative aspect of labor potential is characterized by the following indicators:

- total number of able-bodied population;
- number of working hours which the employee work at the current level of productivity and labor intensity.

For calculation of the labor potential the formula is used:

$$TP = TR \times PT,$$

Where,  $TP$  - employment potential;

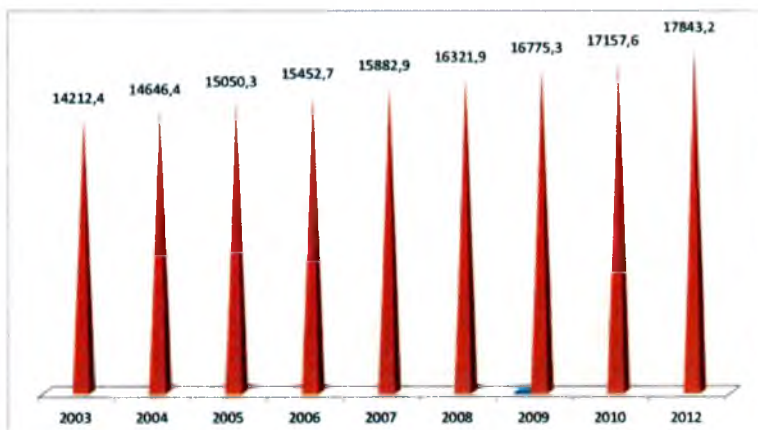
$TR$  - labor resources;

$PT$  – potential labor productivity.

Labor resources have certain quantitative, qualitative and structural characteristics that are measured in absolute and relative indicators:

- average and average annual number of employees;
- turnover rate;
- proportion of workers with higher and specialized secondary education, their total number;
- average length of work by certain categories of workers;
- proportion of workers of certain categories in their total number.

If in 1990 the proportion of people in Uzbekistan in working age of the general population was 49.2%, at the present time, this figure reached 60.5%. Every year the number of people of working age increase in 380, 0-400,0 thousand people. And the annual growth of population of working age was 3.1-3.2 % in 2003-2004, then this indicator decreased to 2.7-2.8 %, and it was 2.4 % ( Fig.4.7 ) in 2012.



**Fig. 4.7. Dynamics of the working-age population in the Republic of Uzbekistan (thousand people)**

The typical feature of the employment potential of Uzbekistan is its high level of education. The literacy rate is more than 99.0 and this indicator put our country in same row with economically developed countries with high levels of human development. The level of general and professional education of labor forces is high. Every fourth, engaged in the sphere of material production and services, has higher or specialized secondary education. 200 residents of every 1000 - specialists with secondary special education. That is, the educational level of the republic refers to highly educated countries.

The dynamic growth of the working age population of will undoubtedly have a significant impact on labor force supply in the labor market. It urgently

requires taking measures aimed at creating conditions for provision of employment of labor resources.

### **4.3. Tendencies in employment sphere in Uzbekistan**

One of the most important social problems is providing employment in Uzbekistan. Therefore, the President of the Republic of Uzbekistan Islam Karimov stressed that "Still, our focus remains the creation of new jobs, employment and income growth"<sup>1</sup>.

Citizens of the Republic of Uzbekistan have the exclusive right to use abilities to productive and creative work and to carry out any activity not prohibited by law, including not related to paid work.

Administrative forced labor in any form is prohibited, except for cases specified in the legislation of the Republic of Uzbekistan. Voluntary unemployment of people cannot serve as a basis for bringing them to responsibility.

In Uzbekistan, the state policy in the field of employment based on the following principles:

- independence of the Republic of Uzbekistan in solving the problems of unemployment;
- ensuring equal opportunity in performing the right to work and free choice of employment in all cases, regardless of gender, religion, age, political opinion, nationality, language skills, social and marital status;
- maintaining labor initiative of people to promote and encourage the development of their abilities to productive and creative work, providing decent employment conditions of work and life;
- voluntary work;
- ensuring social security in employment and protection of population against unemployment;

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<sup>1</sup> Karimov I.A. 2014 will be the year of the country development at high rates, mobilization of all the possibilities, consecutive continuation the of proved reform strategy// Report on the meeting of the Cabinet of Ministers, dedicated to the socio -economic development in 2013 and the most important priorities of economic program for 2014 // Khalk suzi, January 18, 2014.

- performance of special events promoting the employment of people who have particular difficulties in finding stable work;

- coordination of activities in the field of employment with other directions of economic and social policies, including social security, growth and income of distribution, warning of inflation;

- interrelation of Trade Unions of the Republic of Uzbekistan, associations (unions) of entrepreneurs with governmental authorities in the development, implementation and monitoring for the introduction of measures on provision employment;

- republican and interstate cooperation in solving the problems of unemployment.

The State is responsible for facilitating full and effective employment and creating conditions for the realization of the right to work, and guarantees:

- free choice of employment and working conditions;

- protection against unjustified refusal to hire and fire;

- ensuring equality of opportunity for all workers in getting profession and employment, conditions of employment and work, wages and income, career growth;

- providing young specialists - graduates of state educational institutions, prepared in accordance with the requests of enterprises, institutions, organizations, job according received occupation (profession) for a period not less than 3 years;

- free general education and vocational training and retraining in the manner determined by law;

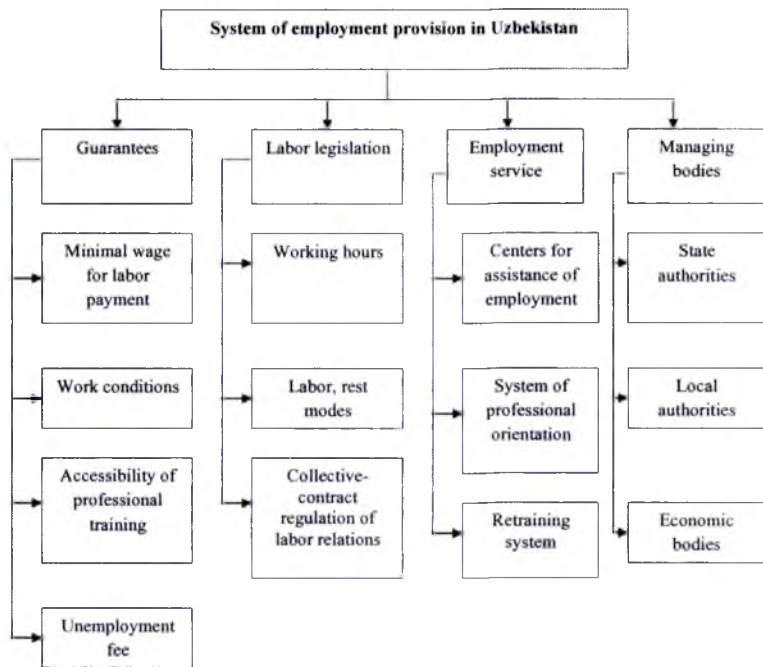
- free training to new profession, training in specialized centers of education and state employment service and other educational institutions with scholarships;

- compensation for material costs in connection with the direction to work to another area;

- opportunity to make fixed-term contracts to participate in paid public works, organized according to the age and other features of people.

The state provides additional guarantees to persons:

- required social protection, having difficulties in finding job and not able to compete on equal terms in the labor market, including lone parents and large families with children under the age of 14 and disabled children;
- young people who graduated from secondary schools, other educational institutions; demobilized from the Armed Forces, Internal Affairs Ministry forces, border forces, national security forces;
- disabled persons, persons close to retirement age; persons released from prison or subjected to forced treatment by court order (hereinafter persons required social protection), by creating additional jobs and specialized enterprises, including enterprises for employment of disabled persons, the organization of special training programs and other measures ( Fig. 4.8 ).



**Fig. 4.8. System of providing employment in Uzbekistan<sup>1</sup>**

<sup>1</sup> Labor market: Textbook / Under common edition of Abdurakhmanov K.Kh., Odegov Yu.G.. – T.: TF REA ,2009.



Councils of People's Deputies determine the number of special jobs, including flexible forms of employment for enterprises, institutions and organizations for person's required social protection.

In case of hiring such people over established quota, the legislation of the Republic of Uzbekistan, decisions of local Councils of People's Deputies provide benefits and other payments to the republican and local budgets, determined by the Cabinet of Ministers of the Republic of Uzbekistan.

Employment assistance is provided primarily through the promotion of contacts between job seekers and employers. For this purpose, on the basis of regional (municipal) departments of labor, employment and social protection it was organized regional (municipal) employment Centers for assisting employment with stationary points on employment and social protection of the population in large rural citizens' gatherings (makhalla).

The main objectives of promoting employment centers are following:

- providing, in accordance with the method of calculating the unemployed, systematic registration of unemployed, the formation of data base for seeking employment, as well as the existing vacancies;
- assisting in the employment of the unemployed, especially youth, women and other socio vulnerable categories of population;
- development of effective forms of employment, including the implementation of home-based work, promotion of self-employment, including breeding cattle at private subsidiary and small farmers, and others;
- organization of vocational training and retraining of the unemployed, the implementation of provided by the legislation measures for their social support, the expansion of paid public works;
- monitoring employers for compliance with labor legislation, as well as legal acts in the field of labor;
- provide practical assistance to self-governing body in the implementation of measures of social support of needy families, and monitoring compliance of

established procedure for the defining and payment of benefits and financial assistance to needy families.

The measures, adopted in Uzbekistan for creating new jobs, diversification of economic structure, training of qualified personnel, as well as the transition to a mandatory 12-year education, contributed to the further expansion of employment.

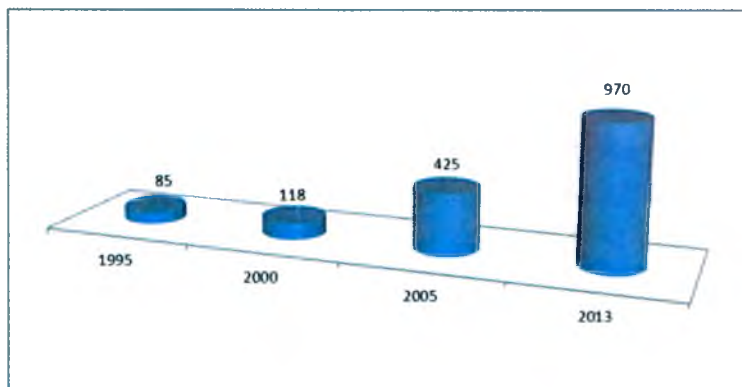
Uzbekistan developed and consistently implemented a national model of creating new jobs in the economy, which provides:

- introduction of new large industrial objects, reconstruction and expansion of existing enterprises;
- implementation of sectoral programs for modernization and technological renovation of enterprises, localization of production:
  - encouraging the development of small and family businesses, as well as private enterprise, sphere of service;
  - expansion of various forms of domestic labor, primarily through cooperation with enterprises on labor contracts;
  - creation and expansion of farming enterprises, specializing in the production of livestock products, poultry, bee-keeping, fish farming, gardening and other products;
    - deep processing of agricultural products;
    - further development of transport and communication construction, social and market infrastructure;
    - expansion of works on the improvement of human settlements;
    - public works.

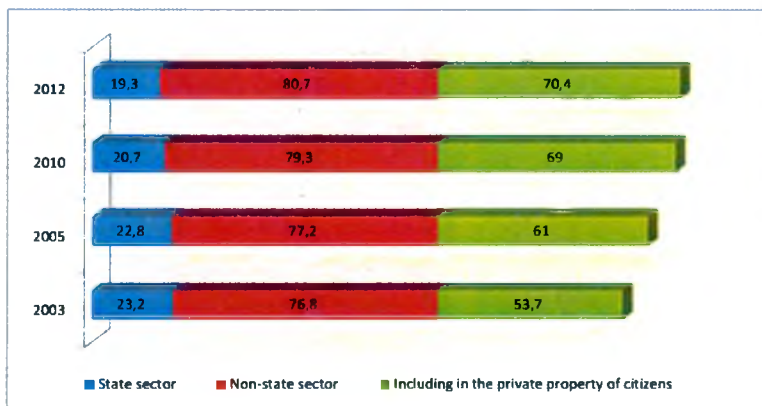
The implementation of these state and regional target programs helped to increase the number of new jobs from 85 thousand in 1995 to 970 thousand in 2013 (Fig.4.10).

The significant positive changes are provided in the employment structure. The significant changes in the employment structure occurred together with the development of market relations. Currently, the share of employed population in

the private sector is more than 80.0%, including the private property of citizens - more than 70.0 % (Fig. 4.11).



**Fig.4.10. Dynamics of growth of new jobs in Uzbekistan <sup>1</sup>**



**Fig. 4.11. Dynamics of ratio changes in employment in the Republic of Uzbekistan by property.<sup>2</sup>**

<sup>1</sup> Data of the Ministry of Labor and Social Security // <http://www.mexnat.uz>.

<sup>2</sup> Statistical year-book of the Republic of Uzbekistan. –T.: State Statistics Committee of Uzbekistan ,2013. – p.60.

Positive trends are observed in the sectoral structure of employment. It is significantly reduced employment in agriculture, where in the early 1990s worked more than 40.0% of the total number of employed in the economy. In 2012, there are only 25.0 % of the total number of employed workers in this industry. At the same time significant employment growth occurred in the sphere of service and transportation from 36.0 to 52.0 %, and in construction (Table 4.2).

**Table 4.2**

**The distribution of employed people in the Republic of Uzbekistan by sectors of economy (thousand people)<sup>1</sup>**

Indicators	2003	2005	2010	2013
Total employed	9589,0	10196,0	11628,0	12523,3
Including:				
Industry	1223,0	1348,0	1540,0	1590,0
Agriculture and forestry	3063,0	2967,0	3127,0	3261,0
Transport and communication	433,0	488,0	604,0	639,0
Construction	763,0	849,0	1065,0	1130,0
Trade and public nutrition, material-technical provision, sale and preparation	815,0	904,0	1243,0	1330,0

As a result of the implementation of regional programs, creating new jobs and providing employment in 2013, the country employed about 970 000 people, and more than 60.3% - in rural areas.

To provide employment, role of small business and entrepreneurship is particularly high. If the total number of employed people was 49,7% worked in this sector of country's economy in 2000, while in 2005 this figure reached 64.8 % and in 2013 - 75.0%.

<sup>1</sup> Statistical year-book of the Republic of Uzbekistan. –T.: the State Statistics Committee of Uzbekistan, 2013. – p.61, Data of State Statistics Committee of the Republic of Uzbekistan //http://www.stat.uz.

If in the period 2005-2013 it was implemented more than 6.5 million new jobs in the economy of our country, and more than 60.0 % of them - in the field of small business and entrepreneurship. The number of new jobs created in this priority sector of the economy, compared with 1995 increased by more than 9.5 times. Just in 2013, it was created more than 480,000 jobs at account of small enterprises, micro and individual entrepreneurship in the country through the expansion of home-based work - more than 210000.

The sphere of services develops rapidly in small sector of the national economy. Currently, its share in GDP is more than 52.0 %. The highest rates of development are observed in high technological and infrastructural types of services, such as communication services and information, computer programming, repair and maintenance of technological equipment, financial and banking services, and others, which contributes to the creation of additional jobs.

The country annually creates approximately 80000 jobs in the sector of home based labor. More than 208000 of large families, disabled persons and other citizens required social protection, are involved in various services. The country has created a system of incentives for businesses, employers and the population engaged in domestic work. In particular, enterprises are exempt for 5 years from the unified social payment in the amount of funds paid to home workers wages, tax exemptions for the property transferred to homeworkers and others<sup>1</sup>.

Domestic work allows attracting to work most of the population, including rural areas with surplus of labor resources, by placing orders of industrial enterprises. Cooperation with homeworkers allows large industrial enterprises to set operation of family production or acquisition of new products, release production facilities for high-tech products, by transferring part of operations requiring big labor expenses to homeworkers.

For the period 2006-2013 years, enterprises of the country created more than 1.0 million jobs of domestic work based on labor and order contracts with

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<sup>1</sup> Decree of the President of the Republic of Uzbekistan № UP-3706 dated January 5, 2006 "On measures to stimulate the expansion of cooperation between large industrial enterprises and services based on the development of home-based work" // Collection of Legislation Acts of the Republic of Uzbekistan, 2006, № 1, Art. 1; 2009, № 25, p. 282; 2010, № 52, art. 511

population. In addition, because of the economic activity of the population, providing favorable conditions for the employment it was created more than 302.1 thousand jobs in the sphere of home-based entrepreneurship and crafts.

Support measures gives significant impetus to development of domestic and national handicrafts. Currently, more than 130.0 thousand people are involved in domestic work, by organizing family businesses, mainly in the field of handicrafts in traditional handicraft centers - Bukhara, Samarkand, Khiva, Gijduvan, Kokand, Marghilan, Shakhrisabz, Chust and other cities of the republic.

Implementation of programs for creating jobs and employment contributed the increase of jobs in the regions with high levels of employment needs, as Samarkand, Ferghana, Tashkent, Andijan, Namangan, Bukhara, Surkhandarya and Khorezm. In each district and city it was created and successfully operates specialized structures providing assistance to unemployed citizens in employment issues. Annually labor exchanges employ about 42.0 thousand people to vacant and new jobs, train and improve skills in professions demanded on the labor market over 25.3 thousand people.

At the labor market, regional (municipal) Centers for the promotion of employment and social protection have implemented a set of address measures for the provision of services to the unemployed population, unemployed college graduates, and persons discharged from military service, disabled, unemployed women due to family circumstances and others. Based on the use in the activities of territorial bodies of labor and social protection of the population of modern information technologies, job search programs modified "Vacancy", "NewJob", Ministry of sites and its territorial bodies actively carried out to provide job seekers interactive services to citizens about jobs, labor market needs and job opportunities.

To provide employment to socially vulnerable categories of population - disabled, graduates, and for the first time job seekers , unemployed women with young children , persons excused from punishment , discharged from military

service and other categories of people who have difficulties in the labor market are reserved jobs .

In order to improve the competitiveness of the unemployed in the labor market and to ensure their employment on required economies occupations it is implemented professional training to the unemployed. They are trained in basic vocational colleges for following most required occupations at the labor market such as weavers, knitters, electricians, welders, painters, plasterers, computer equipment operators, and others. Vocational Training Center was commissioned in Tashkent.

Unemployed persons are directed to execution of paid public work on the improvement of settlements, the construction and repair of roads, infrastructure and other areas, including the reclamation works by Regional Centre for Employment and Social protection of population.

In order to ensure employment of graduates of professional colleges it was developed and approved comprehensive measures providing the conclusion of tripartite agreements between enterprises, colleges and graduates for practical training with following employment in specific enterprises and organizations. Based on this system "college - enterprise" graduates of professional colleges are assigned to more than 92.9 thousand enterprises and organizations.

Thanks to these measures the unemployment level in Uzbekistan, defined according to the ILO methodology , is at an acceptable level within 5.0% of the economically active population.

Provision of employment - the main link between the achievement of economic growth and the creation of opportunities for human development. In the conditions when the labor supply exceeds the demand it is developed and implemented national and regional programs to create new jobs. Social protection of unemployed is implemented by paying grants to unemployment. It is also taken measures for improvement skills, training and vocational training for unemployed, involvement of unemployed temporary paid public work.

### ***Control questions***

- 1. Describe main indicators characterizing the structure of labor force. What is definition of economically active and inactive population?*
- 2. Who is classified as unemployed according to the definition of the International Labour Organization?*
- 3. What does Okun's law say?*
- 4. What is the interrelation between employment, economic growth and human development?*
- 5. What is the difference between Swedish and Japan labor market models?*
- 6. What are the main direction and features of employment policy in Uzbekistan?*



## PART II

# LIVING STANDARD AND HUMAN DEVELOPMENT

## CHAPTER 5. WELL-BEING CONCEPT AND LIVING STANDARD

### 5.1. Theoretical and methodological bases of well-being concept

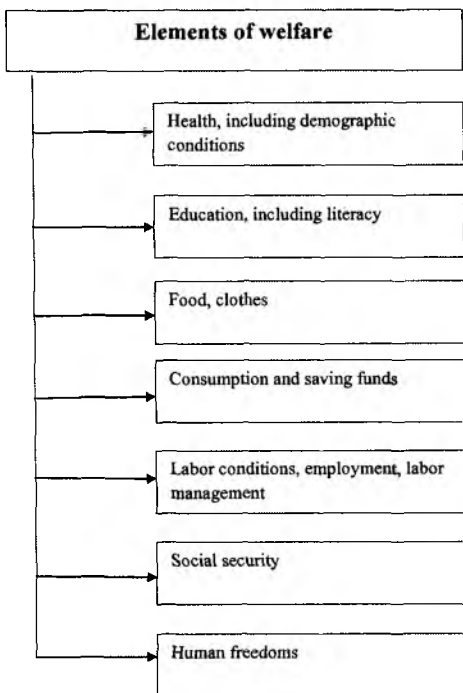
Human development concept pays much attention to income growth as one of the critical aspects for expanding human capacities. The correlation between income growth and human development is not only in accumulation of wealth but in the ways the income is distributed and used. Fair distribution of resources expands human choices for all members of society and creates conditions to increase the quality of life.

Income differentiation is shaped by economic, demographic and social factors and is reflected in the ratio of material welfare.

From the point of view of human development to ensure worthy life, people should not only have material welfare and services but also legal protection from the risk to lose them and an opportunity to make impact on distribution of material welfare and services.

Therefore the Article 25 of the Universal Declaration of Human Rights adopted by the General Assembly in 1948 states that: *“Everyone has the right to a standard of living adequate for the health and welfare of himself and his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control”*.

*Welfare* is a characteristic of socio-economic living conditions and satisfaction of population's needs. Based on UN recommendations, welfare is a system of the following elements: (Fig.5.1)



**Fig.5.1. Elements of welfare**

Welfare is linked directly with the development of production capacities and character of economic relations. The higher development of production capacities is, the faster population welfare grows. To higher extent, welfare is linked with efficiency of the socio-economic policy in a separate society.

Various living goods have unequal value; therefore, the needs of people differentiate greatly by their scales. Humankind satisfies needs in food faster, thus upon the growth of income the share of expenditures for food reduces in the first place. Then come the expenditures for clothes and footwear, though in this case the process of saturation takes longer due to regularly changing fashion.

In the 19<sup>th</sup> century, Prussian statistician Ernst Engel<sup>1</sup> found the correlation: as private income grows the share of expenditures for food decreases, the share of expenditures for clothes, housing and public utilities changes insignificantly, while the share of expenditures to satisfy cultural and other nonmaterial needs rises notably. This correlation was called “Engel’s Law”.

*Engel’s Law* is an economic law providing that consumers’ behavior correlates with the size of received income while income growth does not provide proportional growth of goods consumption. Expenditures for food increase less than expenditures for durable goods, travel or savings. While the structure of foodstuff consumption tends to higher quality of food. Income growth leads to increased share of savings and consumption of high-quality goods and services and reduced share of low-quality ones.

Ernst Engel stated (and now it is universally recognized) that if private consumption in all countries develops similarly, then analysis of the structure of family expenditures allows comparing welfare of various population groups both in a specific country (by setting the share of a family’s expenditures for food as a criterion) and in different countries.

*Wealth* is a state a human or a society has plenty of material and nonmaterial values such as money, means of production, real estate or private property. Wealth also covers access to health services, education and culture.

Sociology provides that a wealthy person is the one having significant values comparing with the other members of the society. Economics defines wealth as a difference between assets and liabilities at a certain moment of time. The opposite of wealth is poverty. In English “wealth” means possession of values, while the utter predominance over the rest members of the society means “richness”. The countries that excel the other countries in wealth are usually called “developed”.

The most significant components of welfare are demonstrated schematically in Table 5.1. It provides environmental conditions as social and physical conditions. They make reciprocal impact. In practice, clear division by social and

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<sup>1</sup>Ernst Engel (gr. Ernst Engel, 1821-189 ) - German economist and statistician.

**physical environment** is not always possible but for the aims of analytics, this **definition** has a structural significance.

Social resources mean the ability of a person to influence the conditions of living, in particular to achieve specific results and protect from unfair attitude of authorities and society.

In this case, “services” cover all types of institutions/enterprises of public use as well as social services available for a person, i.e. educational facilities, cultural events, medical services, social services and products for private consumption.

**Table 5.1.**

**Conceptual scheme of welfare and components**

<b>Individuals /family units</b>	<b>Environmental conditions</b>	
<b>Resources</b>	<b>Social</b>	<b>Physical</b>
Health and physical condition	Employment and labor conditions	Landscape
Knowledge and skills	Services	Climate
Economic resources	Social interrelations	Transport network

Opposite to social belonging, which covers relations among family members and persons, social interrelations focus mainly on communities located in one geographic space. Local social communities have an especially significant importance in developing behavior systems, creating opportunities to solve personal social problems in tough periods of life and creating preconditions for decentralized democracy in the form of supplementary services or compensations by independent organizations. In case of a lack of actual interrelations, an increased demand may appear for separate social services or medical services.

Autonomy means freedom of actions and covers such aspects as civil rights, self-determination at a workplace including the opportunity of choice, etc., by using which a person may act independently from other people.

Local control over local resources means the right of the residents of a settlement to use the assets provided by environment and control them. Landscape covers land, water, flora and other physical components of the natural

environment including parks and other “undeveloped lands” available at the disposal by a person, for instance, to arrange outdoor leisure. Healthy, constructive leisure opposite to idle wasting of time is an important, unfortunately little considered under present conditions, welfare component for many people.

Order and safety are also important aspects of welfare. Order and safety may lack in unhealthy environment caused, for instance, by noise, air and water pollution, adverse climate. This lowers welfare of population significantly.

The classic school economists have initially studied the issue of optimal way of wealth accumulation. Adam Smith considered a human as a basis of a society and studied human behavior, his incentives and desire for personal benefits. The natural order as thought by the classic is in market relations when each person forms his behavior on his private and selfish ends, the summary of which shape the interests of the society. In the scientist’s view, this order provides wealth and development both for a separate person and the society as a whole.

Adam Smith formulated concepts of “economic man” and “natural order”. Existence of the natural order requires the “system of the natural freedom”, which the scientist saw in private property.

The most known term introduced by Adam Smith – “invisible hand of the market” — acts as an effective tool in distribution of resources. The point is that the own benefit can be obtained only through satisfaction of one’s need. Hence, the market “pushes” producers to fulfill the interests of other people, while all together they provide growth of wealth for the society as a whole. The resources being affected by the profit “signal system” move through the system of demand and supply to the sectors where they can be used most effectively<sup>1</sup>.

David Ricardo<sup>2</sup> kept developing the theory of Adam Smith and emphasized “A part of the country’s wealth used in production and composed of food, clothes, tools, raw materials, machines, etc., is required to drive labor”. In his opinion, unequal profit on capital makes the latter “move from one occupation to another”.

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<sup>1</sup>A. Smith, “An Inquiry into the Wealth and the Causes of the Nations” — M.: Eksmo, 2007.

<sup>2</sup>David Ricardo (*David Ricardo*, 1772 -1823) — English economist, classic of political economy. The main work is “Principles of political economy and taxation” (1817).

The “natural price of labor” is an ability of a worker to support himself and his family, pay costs of food, necessities and conveniences. It depends on customs and traditions since in some countries, for instance, there is no need in warm clothes”.

One of the founders of the neoclassic school, A. Marshall, by synthesizing many ideas related to the role of a human in economy, established a direct link between the accumulation of wealth and human development. He is an author of the following statement: “The production of wealth is but a means to the sustenance of man; to the satisfaction of his wants; and to the development of his activities, physical, mental, and moral. But man himself is the chief means of the production of that wealth of which he is the ultimate aim...”<sup>1</sup>

The follower of D. Ricardo’s theory, J. S. Mill, in his book “Principles of Political Economy” classified the laws of political economy in two groups: production laws beyond our will, and principles of distribution defined by the wants and opinions of people and thus changing depending on the features of the social structure, owing to the distribution rules do not have the significance typical for the laws in the first group. The scientist considered the differentiation of the principles of political economy as indispensable and historically changing as his main achievement in economics.

However, during a long time, the time of industrial transformation of society, the process that took place in the area of material accumulation affected the economic thought. Accumulation of capital and material-goods factors were considered as universal and identifying factors of progress.

Usually it is suggested (directly or indirectly) that the increase of the total production (like growth of GDP per capita) cuts down the scale of poverty and raises the general welfare of population. This suggestion was based on the opinion that production generates income, while higher income in its turn increases material or economic welfare.

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<sup>1</sup> A. Marshall, “Principles of economics”. - M: 1993.

Of course, expanded supply of goods and services contributes to enlargement of a man's opportunities, and in the end – freedom, but this process is indirect and is not an end in itself. The conceptual approach linked with the development of human potential rejects the gross national product as a key development index.

The social dimension of economic development has gained such an important meaning that turned to be a framework of the national economic development models (Swedish model, socially oriented economy of Germany, etc.).

Consistency of the human development theory is proved also by the development of the countries that do not have the reserves of raw material resources and the countries with the material base damaged during the World War II (Taiwan, Korea, Japan, and Germany). Their development strategies focused on a person, human factor as an essential of scientific and technical progress and infinite resource of economic development. This approach provided high dynamics of their economic development and high extent of development socialization.

Finally, one more confirmation of the above-stated is a fact that since the second half of the 20<sup>th</sup> century the most developed countries' investments in human and social security have been exceeded the volumes of material savings. Investments in production being important tend to give way to investments in human development, and the most significant changes in reproduction process in those countries happen *beyond material production*.

After innovative study of Amartya Sen, development process has started to be considered as a process of expansion of people's opportunities, not as a growth of their material and economic welfare. In other words, the aim of development is not to increase production but in providing people with opportunities to expand their choices, have more things to do, live longer, save themselves from diseases that can be avoided, have access to knowledge, etc. The opportunities and choice are closely linked both with each other and freedom – negative (such as freedom from hunger) and positive, for instance, freedom to realize one's aspirations.

In the early 1970-s the World Bank called for a certain redistribution of income. According to this proposal a share of production volume generated during the process of growth, should be used for the needs of the poor through investing into the most important of their assets. This strategy of "redistribution at growth" was especially important because the world's best practices demonstrated the expansion of production is not enough to decrease poverty and achieve development.

In mid- 1970-s, the International Labor Organization tried to make the next step in this analytics by asserting that development priorities should be changed in favor of jobs creation and satisfaction of the main needs of people, including food, housing, clothes, primary and secondary education and primary medical services.

Therefore, the state intervenes directly in the primary distribution of cash income and often sets the upper limit for increase of the nominal wage. Economic significance of the public regulation of wage is defined by the fact that the change in wages makes impact on the total demand and production costs. The income policy is used by the state with an aim to restrain growth of wages thus reducing production costs, increasing competitiveness of the national product, encouraging investments and tempering inflation.

By executing anti-inflation policy, the state may temporarily set a long-term limit of wage growth given the needs of economic and social development.

The most effective means of the public regulation in the countries with market economies is a guaranteed minimum (or rate). The minimal remuneration rate is a starting point for negotiations between the heads of companies and trade unions on signing collective agreements at various levels. These documents also provide various bonuses and extra payments, sectoral differentiation of wages depending on qualification.

Starting from 1991 Uzbekistan regularly revises the minimum wage rate (MWR).

It is especially important to protect cash incomes (wages, pensions, allowances) from inflation. With this aim, the state applies indexation, i.e. the



mechanism to raise incomes providing partial and full compensation of increased prices for consumables and services. Income indexation aims at supporting purchasing capacity, especially of vulnerable groups of population with fixed incomes, i.e. pensioners, disabled people, families with one parent, families with many children and young people.

Indexation is applied both at the national level and at the level of separate enterprises through collective agreement. It provides differentiated approach depending on the income rate: from complete compensation of the lowest incomes to close to zero compensation of the highest ones.

Each country at each stage of economic development sets priorities in the social development as a baseline for the strategic goal, which is an increase of population welfare. Depending on the specific development conditions some countries prioritize reduction of unemployment, others – poverty reduction, the third ones – development of human potential, etc. However despite the variety of approaches to achievement of the goal one thing is undoubted: prior to formulation of the social economy strategy all countries should undertake through analysis of opportunities to establish mechanisms for overcoming social challenges including but not limited to employment growth, poverty reduction.

## **5.2. Living standard and quality of life, their factors and indicators**

*Living standards* is a level of population's welfare, consumption of goods and services, the scope of conditions and indexes characterizing the extent of satisfaction of the basic needs of people. The living standard may be defined as "the extent of satisfaction of material, moral and social needs of population". The main indexes of the living standards are population's incomes:

- average per capita nominal and real incomes, income differentiation rates;
- nominal and real accounted average wage;
- average and real pension;
- living wage rate and proportion of people with income below living wage;
- minimum wage and pension rates, etc.

Each country has its own concept defining the living standards absorbing the **range** and significance of factors influencing the living standards given the goals of **socio-economic development**. The differences in definition of the living standards relate mainly to the system of values typical for the specific national concept and development strategy.

Gross National Income (GNI) per capita is the most objective indicator used to measure the living standards and respective dynamics, providing the cost of the product produced by the society distributed among the consumers of that product:

$$\text{GNI per capita } t = \text{GNI}t : \text{N}t,$$

where: GNI per capita  $t$  is a Gross Domestic Product (GDP) per capita in the year under study ( $t$ );

GNI $t$  – produced GDP in the year under study ( $t$ );

N $t$  – average number of population in a country.

To keep records of annual production, distribution and final use of the gross domestic product, as a rule, the System of National Accounts (SNA) is applied. Under the circumstances of globalization of the world economic relations highly developed countries base their systems of the national accounts on the international standards. The most important of them is SNA-93 – the system of national accounts developed by UN, IMF, World Bank, OECD and EU Statistics Department and approved by the UN Statistics Commission in 1993.

The System of National Accounts has the following components:

- income from hired labor including labor remuneration in cash and in kind forms as well as payments for incomplete work time (vacation, days off, single payments from employers);
- agricultural income of a household from self-employment which is a difference between gross income from agricultural activities (volume of sales) and cash assessment of own consumption;

- nonagricultural income of a household from self-employment from business activities, which is a difference between gross income from business activities and related business costs;

- income from property (rent, interest, dividends);
- transfers from the state, social funds and other households.

Together with incomes another important component for assessment of the living standards is consumption.

Consumption as an economic category defines the process of satisfaction of the direct needs of a person. By the ways of satisfaction, consumption is classified as individual and collective.

One of the characteristics of population needs is a consumer budget shaped on the basis of consumption standards calculated in respect to a certain consumer and depending on his needs. Two types of consumer budgets are used:

- minimal consumer budget which is equal to the lowest consumption level according to the standards acceptable in the society;
- rational consumer budget which is equal to the highest level of consumption.

Sometimes together with the category of living standards, a wider term, *quality of life*, is used. This is a summarizing socio-economic category covering not only the living standards indexes but also the extent of satisfaction of the spiritual needs, environmental conditions, moral-psychological climate, emotional comfort. Not all of them can be statistically measured which complicates assessment of the quality of life.

*Quantitative indexes* of the living standards and quality of life are more obvious. First of all, they include GNP or the national income per capita, income level and distribution in the society, consumption of various material goods and services by the types of goods, employment level, etc.

*Quantitative indexes* of the living standards and quality of life include characteristics of labor conditions, everyday life and leisure of a person.

The modern practice for assessment of the living standards and quality of life applies two approaches:

1. Assessment is made through the system of indexes – social indicators. The national systems have their own features in general but still base on UN methodological recommendations.

2. The aggregate indicator of the living standards and quality of life is calculated based separate indexes. This approach is used widely by UN and other international organization to compare the living standards and quality of life in various countries.

The world practice applies population's incomes for assessment of the living standards and quality of life. They are used either to cover the current expenditures or for savings. The current expenditures include expenditures for food, drinks, tobacco; clothes and footwear; housing, heating and lighting; furniture, home appliances and domestic maintenance; expenditures for health services; transport and communication; education, culture, physical training and sport; rest and tourism; other services and material goods. It should be emphasized, that the grouping of the current expenses has specific features in each country.

The indicators of material welfare often cover property and cash savings since the current income does not always reflect the real consumption accurately.

Savings are difference between income and current expenses. Savings can be in cash and in kind forms. Cash savings mean either increase of cash receipts directly by population or growth of investment in financial institutions or investments in shares (stocks, bonds, certificates, etc.). In-kind savings mean increase of the cost of land, which belongs to population, fixed assets (housing, auxiliary premises, transport, etc.) and material stocks.

However, often the international comparison by the share of savings in incomes is quite relative due to difference in inflation rates, complications in taking into consideration distinctions in the quality of consumed and accumulated goods.

When measuring housing conditions the international statistics marks, first of all, the owner of the housing. With this aim, the total housing stock is classified as own, rented and municipal. Given that some owners have several apartments statistics also defines primary residence (where the user spends most of his time) and secondary residences.

The indexes reflecting professional diseases, industrial injuries and mortality rates are in direct correlation with the labor conditions. They include:

- a) accidents frequency coefficient which is defined by division of the number of accidents by the average number of the employed;
- b) average period of disability, which is a ratio of the total number of days of disability to the number of persons injured in accidents;
- c) accident severity coefficient which is calculated as a ratio of the total number of days of disability to the total number of worked men-days;
- d) accident mortality rate defined as a ratio of the number of persons died at work to the total number of injured persons or average number of the employed for the reporting period.

The study of the housing conditions and leisure is based on analysis of areas of income spending and share of expenses for various goods and services in the total structure of expenses.

Analysis of the structure and consumption of the main types of goods and services per capita or family is based on the criterion of expediency of the structure of families' expenses.

Consumption of separate types of food, clothes, footwear, housing, furniture and other durables and various types of services is measured usually per annum per capita or family and analyzed in dynamics for a certain period of time and is compared both with the scientifically justified national consumption standards and with the respective indexes in other countries.

Since the time of Arthur Pigou economic welfare has been measured by "monetary yardstick", while social scientists often affirmed that cash income is a too narrow notion of welfare. The most serious challenge to the Gross National

Product (GNP) per capita as a development index has become the Physical Quality of Life Index (PQLI) devised by M.D. Morris in 1970-s. PQLI intended to measure welfare or life quality directly, not indirectly by taking the sum total of produced goods and services and dividing by the number of population.

The index was very simple and had the following composition:

a) infant mortality per thousand of births estimated by 100-point system, which provides that the worst rate is equal to zero, and the expected best rate is 100 points;

b) life expectancy by 100-point system, which provides that the worst rate in each year is zero point, while the best expected ratio is 100 points;

c) adult literacy rate in per cent. However, PQLI did not manage to attract attention of development practitioners and replace GNP.

The first international system of indexes reflecting the quality of life was established by UN in 1960. The last version of this system was developed in 1978 and has 12 main groups of indexes:

- 1) population demography (rates of birth, mortality, sickness, life expectancy, etc.);
- 2) sanitary and hygiene conditions;
- 3) food consumption;
- 4) housing conditions and possession of durables (car, fridge, TV set, etc.);
- 5) education and culture;
- 6) employment and labor conditions;
- 7) income and expenses;
- 8) cost of living and consumer prices;
- 9) transport means;
- 10) recreation, physical training and sport;
- 11) social security;
- 12) human freedom.

Besides the above groups the UN Statistics Commission defines a general section covering information indexes required for assessment of the life quality but

are not considered by UN experts as direct characteristics. This includes the following indexes:

- national income, GDP per capita and average annual growth rate;
- volume and types of social security;
- expenses for personal consumption, structure and average annual growth rate;
- population density;
- transport services for population;
- communication, press, etc.

*Cost of Living Index (CLI)* is also used for dynamics of prices for consumer goods and services. CLI is defined by the following formula:

$$Scl = \frac{\sum q1 \times p1}{\sum q1 \times p0},$$

where  $q1$  – quantity of goods and services purchased by a consumer for a certain period of time (year);

$p1$  – price per unit of goods (services) in this period;

$p0$  – price in the previous (base) year.

CLI defines the dynamics of the physical volume of cash income of population, social groups, studies dynamics of the physical volume of real wages of workers and employees track the changes in physical volume of real income of population, social groups and groups with different levels of income per each family member. CLI is calculated based on a set of certain quantity of goods and services and regular observation of the price dynamics.

CLI was introduced by UN into the international statistics as one of the indexes of the living standards system which has 12 groups of indexes. However UN experts think that this index cannot be considered as a comprehensive living standards index.

*Living wage* is an indicator in the public social policy. The social legislation of developed countries uses this indicator to measure poverty: the population with income below living wage is accepted as poor and has the right for public support.

The living wage is a basis for many social guarantees: minimum wage, minimum pension, student scholarships, some allowances.

There are several indicators of living wage depending on the size and designation of the basket of goods. The living wage in the world economic science is reflected in two types: live (physiological) and social.

*Physiological minimum (minimum basket of goods)* includes expenses for the goods required to satisfy the key physiological needs. This cost assessment covers the natural set of foodstuff given dietary restrictions and ensuring minimum required number of calories.

*The social living wage besides physiological* includes expenses to satisfy minimum social and spiritual requirements typical for the development level of a specific country.

For definition of a living wage the social statistics accepts: expert assessment method, social survey method, normative method (method of the basket of goods), etc.

The living wage indexes are calculated separately for able-bodied men and women, children and pensioners.

The living wage and dynamics are important but not the only indexes used for assessment of the population's living standards.

Price growth makes substantial impact on population's income. The indicator reflecting this impact is *Consumer Price Index (CPI)* is an index of prices calculated for a group of goods and services included into the basket of goods of an average urban dweller.

*Index of Intellectual Potential* is an important indicator of the life quality. Intellectual potential reflects the education level and science development in a country. Calculation the Index of Intellectual Potential includes adult education, share of students in the total number of population, share of expenditures for education in GDP, share of the employed in science and science servicing, share of expenditures for science in GDP.



*Human Capital per Capita* is an indicator of the life quality. It reflects the level of public, corporate and personal per capita expenses for education, health and other social sectors. The higher the national economic development is, the greater the human capital and respective proportion in the total capital structure. Even in poor countries human capital exceeds the reproduced one which includes material and real conditions of production.

*Viability Coefficient* also refers to the indicators of the life quality. It characterizes opportunities to preserve the gene pool, intellectual development of population within the socio-economic policy executed in the country during the time under revision. This coefficient is measured by five-point scale. Based on UNESCO and World Health Organization (WHO) study conducted in 1995 the viability coefficient below 1.5 indicated crisis situation, decline of the living standards and life quality to the edge below which the nation starts to die out.

Viability coefficient by countries was the following:

- 5 points – none country of the world;
- 4 points – Switzerland, the Netherlands, Belgium, Denmark;
- 3 points – USA, Japan, Germany, Taiwan, Singapore, South Korea, etc.;
- 2 points – China, Iran, Brazil, Argentina, Mongolia, Turkey, Vietnam, etc.;
- 1.6 points – Somali, Haiti, Myanmar;
- 1.5 points – Bosnia, Western Sahara.

In the second half of 1980-s The United Nations Development Program (UNDP) proposed human potential development index (HPDI) as an aggregate indicator of the life quality.

In 1990 UNDP made an attempt to conduct a comprehensive assessment of the national socio-economic development and published the first Human Development Index (HDI).

Living standards and life quality in the countries of the world are reflected in annual Global Human Development Reports published by UNDP since 1990.

The first Human Development Report was published in 1990 and emphasized that human development due to its wideness and generality is typical

**for all countries: “Human development... combines production and distribution of goods with expansion and use of human capacities. It focuses on the choice, what people must have, what they must be and what they must do to earn livelihoods. Human development relates not only to satisfaction of the basic needs but development of human as general and dynamic process. It is applied both to less and to highly developed countries”.**

People in the world have made great achievements for the last 20 years and now humankind faces new urgent challenges, consequence of the social, economic and political transformations speeded up by the end of the 20<sup>th</sup> century. These problems are to be solved. Whether this can be achieved and how to make it in the best way will be defined by human development in the 21<sup>st</sup> century.

### **5.3. Equality and human development**

The main problem when studying the living standards is inequality of welfare. Inequality of incomes may reach substantial scales and threaten political and economic sustainability in the country; hence almost all developed countries have to decrease continuously the gaps between the incomes of various groups of population. However, formulation of those measures is possible only in case ability to identify accurately the extent of differentiation of income and wealth and influence it through the public policy.

In line with the modern economic theory both absolute equality in income distribution and deep gaps between the living standards of various groups of population are not desirable. Absolute equality in incomes does not encourage productive labor; hence certain inequality in incomes is a highly important means to stimulate labor activities of people.

Differentiation of income means objective differences in incomes of individuals and social groups caused by differences in wages, social payments, capacities and business skills, property status.

Cash income includes wage, social transfers, income from business activities, interest, dividends and other income from property as well as the total

cost of products from private subsidiary farms consumed by a family and sold. Income is distributed by groups unevenly.

There are a number of indexes for assessment of income differentiation, which allows examination of this process intensity. This includes:

- distribution of population by per capita income is an index for proportion of per cent in the set interval of average per capita cash incomes;
- distribution of the total cash income by various groups of population is an index in per cent of the share in the total volume of cash income.

The indexes measuring gaps between high-income and low-income groups of population are used for analysis of income distribution. Decile, quartile, quintile and other coefficients are used with this aim.

*Decile coefficient* of income concentration provides composition of the total population taken as 100.0% in ten equal groups and finding the ratio between the first and the last groups. Decile coefficient of income differentiation demonstrates the extent to which the minimum income of 10.0% of the wealthiest population increases the maximum income in the poorest 10.0% group.

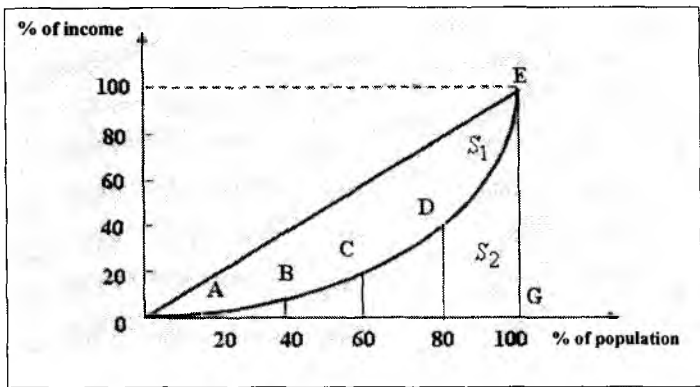
Similarly, *quartile coefficient* of income concentration provides composition of the total population in four equal groups by 25%, *quintile* – by five income groups.

Analysis of population's income from the point of view of differentiation may base on assessment of accumulated frequencies and tracing Lorenz curve<sup>1</sup>.

*Lorenz curve* composes the population of a country in 5 equal groups by the number of included households, groups (by 20%). Population groups are along the x-axis from the poorest to the wealthiest. If all groups of population have equal incomes than 20.0% of population has 20.0% of income, 40.0% of population has 40% of income, etc. The closer Lorenz curve to the absolute equality line is the less inequality in income distribution.

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<sup>1</sup> **Max Otto Lorenz** (*Max Otto Lorenz*, 1876-1959) — american mathematician and economist, author of the famous "Lorenz curve" (published in 1905), reflecting geometrically the extent of income differentiation. The main books: *Methods of measuring the concentration of wealth*, 1905; *Outlines of Economics*, 1908 jointly with R. Ely, T. Adams, and E. Young.



**Fig. 5.2. Lorenz curve**

If the total income is distributed among separate persons absolutely equally, i.e. all incomes are equal then Lorenz curve match the  $45^\circ$  line (bisector) and the proportion of any income recipients quantile matches with the respective proportion in the total number of income recipients. If such equality in income distribution existed than 20.0% of population would receive 20.0% of the total income generated by the society, 40.0% of population – respectively 40.0% of the total income, etc.

Real distribution of income in the society is characterized by the extent of deflection of Lorenz curve from bisector. Inequality in income distribution means that each group from upper quantiles gains greater share of the total income of the society, while each group from lower quantiles – lower share. Absolute inequality means that 20.0%, 40.0%, etc. of population do not gain any income except the only, the last person in the distribution row who appropriates 100.0 % of the total income. If someone gets total income than Lorenz curve goes along the horizontal axis and then rises vertically.

Deviations of Lorenz curve from bisector can be measured through proportion of the figure area between Lorenz curve and bisector to the area of the triangle shaped by bisector and Lorenz curve. As a result we get the index

characterizing the extent of inequality which in economic literature is known as income concentration coefficient or Gini coefficient.

*Gini coefficient*<sup>1</sup> (*Gini index*) is a statistical index testifying the extent of stratification in a specific country or a region by a specific indication under study (for instance by annual income which is used more often, especially for contemporary economic calculations). Like Lorenz curve, Gini index may be used to define the level of inequality by the accumulated wealth, however in this case the necessary condition is non-negativity of net wealth of a household. This statistical model was proposed, developed and published in 1912 in his famous study "Variability and Mutability". This macroeconomic index characterizes the differentiation of money income of population as a deviation of actual income distribution from the absolute equal distribution of income among all citizens of the country.

This index can vary from 0 to 1. The higher the rate of the index is, the larger the distance between Lorenz curve and deeper the inequality are.

When defining Gini index the one relies on a principle of perfect equality, which suggests that 1.0 % of population must have 1.0 % of the total income of that society. In the world practice Gini index used for income assessment in the society is calculated for each year.

According to the classification proposed of OECD countries the following scale is accepted for inequality (Fig.5.3):

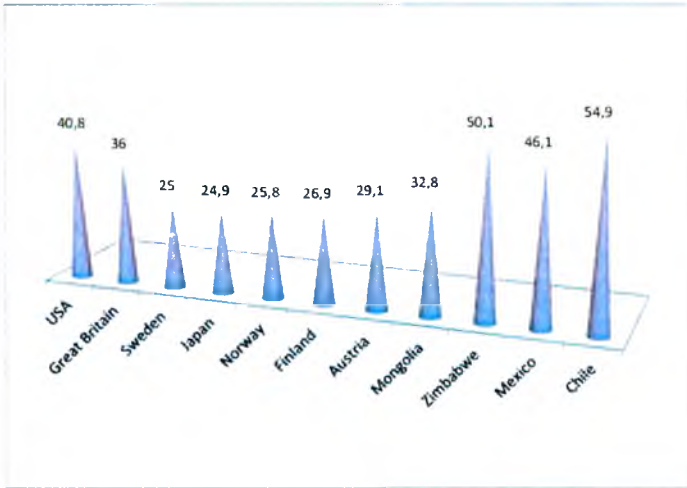
- economy with very low extent of inequality (Gini index is 20—22);
- low extent of inequality (24—26);
- medium extent of inequality (29—31);
- high extent of inequality (33—35).

Inequality is linked closely with poverty. For poverty definition the minimum living standards are developed, i.e. legally set normative indicators of the living standards providing the minimum required satisfaction of the basic needs

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<sup>1</sup> Corrado Gini (1884—1965) - Italian statistician and demographer.

of population. The most important ones include “basket of goods”, living wage, and minimum consumer budget.



**Fig.5.3. Gini index for selected countries**

*Basket of goods* is a set of 35 foodstuffs providing minimum sufficiency of consumption: 11 aggregated groups: bread products, potato, vegetables, fruit and berries, meat products, dairy products, fish products, eggs, sugar and pastry, vegetable oil and margarine, other foodstuffs; 4 groups of non-foods and 5 types of services.

*Living wage* is a cost of the minimum composition and structure of consumption of material goods and services required to support the physical viability of a human.

*Poverty* is a characteristics of economic condition of a person or a social group which does not allow satisfaction of a certain minimum needs required for life, maintaining of ability to work, reproduction. Poverty is a relative notion and depends on the general living standards in a certain society. Poverty is characterized by a reasonably long-lasting lack of resource which can be

compensated neither previous savings nor temporary savings to purchase expensive goods and services.

Poverty is a consequence of various and interrelated reasons combined in the following groups:

- economic (unemployment, low wages, low labor productivity, sectoral uncompetitiveness);
- social-medical (disability, old age, high sickness rates);
- demographic (families with one parent, numerous dependents in a family);
- socio-economic (low level of social securities);
- education-qualification (low level of education, insufficient professional training);
- political (military conflicts, forced migration);
- regional-geographic (uneven regional development).

The world practice notices three main concepts defining poverty:

1. *Absolute poverty concept.* This concept is close to a notion of a poverty line. Poverty line is a level of available income, gross income or consumption below which a person is considered to be poor. Absolute poverty often measured as a number of people or households with level of consumption or income is below poverty line. The World Bank sets the subsistence edge of USD 1.25 (exchange rate is calculated by the purchasing parity power).

2. *Relative poverty concept.* Measures of relative poverty set the relative poverty line and apply population's incomes to them. In case the real income of the total population grows while the distribution does not change, relative poverty remains the same. Therefore, the concept of relative poverty is a component of inequality concept. However, it does not mean that lower equality always means lower relative poverty, and vice versa.

The founder of the relative poverty concept is English sociologist P.Townsend, who considered poverty as a state in which the lack of economic resource makes the life style usual for the most members of the society impossible. He based his poverty analysis on the notion of a range of privations,

multidimensional deprivation, which he understood as a “state of observed and proved unfavorable position of a person, family or group in community, society or nation as a whole”.

P. Townsend introduced the term of multidimensional deprivation because together with material deprivation which covers food, clothes, housing, durables, residential area and state of environment, conditions and type of labor, he also used indicators of social deprivation including the mode of employment, specific features of leisure, education, etc.

The scale of relative poverty does not coincide with the scale of absolute poverty. Absolute poverty can be eliminated but relative poverty always remains because inequality is an imminence of stratified societies. Relative poverty remains and even rises when the living standards of all social strata grow up.

3. *Subjective poverty* is a poverty concept based on the meaning the only the person himself can define whether he is poor. There are several approaches to define the level of subjective poverty: in particular, how many people consider themselves poor or consider their friends as poor. It is also possible to identify the subjective absolute poverty line based on the public opinion, and then compare it with the population's incomes.

The decisive role in the social protection of these population strata belongs to the developed system of cash and in-kind allowances. Such a system is established in all market economies being a critical social buffer mitigating lots of negative consequences caused by its development.

Specific indexes defining the poverty threshold are used to include certain groups of population into the range people with the right to get social aid.

*Absolute poverty line* is minimum standard of living defined based on the physiological needs of a human in food, clothes and housing, i.e. Based on the basket of goods and services enough to satisfy the basic human needs. Absolute poverty is characterized by the lack of the main conditions required to support physical life, i.e. food and shelter.



*Relative poverty line* demonstrates the cost of the minimum basket of goods (poverty line) against average level of welfare in the country (region). Relative poverty is used to demonstrate the mismatch of the definitions of absolute or primary poverty in terms of cultural needs of individuals and families in the context of the welfare of the rest of the society. This relative definition of poverty links poverty not only with physical but also with social needs.

Differentiation of population by income based on the living wage and minimum consumer budget allows separation of the following groups with various extent of material welfare:

- 1) "*poor*" families with a per capita income below or equal to the living wage;
- 2) "*low-income*" families with a per capita income between the living wage and minimum consumer budget;
- 3) "*middle-income*" families with a per capita income between the minimum consumer budget and rational consumer budget;
- 4) "*rich*" families with a per capita income over the rational consumer budget .

In connection with the rendering of human development as realization of opportunities, as personal self-actualization the principal significance was given to the idea of "*Poverty of Opportunity Index*" (*POPI*) first introduced in UN Report in 1996. This idea provided that lack of or limited opportunities to satisfy the set of human needs, first of all the key ones in long and healthy life, education, access to resources required for dignified life, not only low per capita income, should be considered as poverty characteristics. Poverty by opportunities index was calculated as an average of three indicators:

- proportion of children whose birth was not supported by qualified medical staff;
- proportion of illiterate female aged 15 and older;
- proportion of underweight children under 5.

This idea was further developed in 1997 Report with a proposal of Human Poverty Index (HPI) calculated as average of the third range of deprivation indexes in the key aspects of human development:

- opportunity to livelong and health life (proportion of population died under 40);
- opportunity to obtain education (proportion of adult illiteracy);
- access to resources required for dignified life (average of proportions of population with no access to health services, safe potable water and proportion of underweight children under 5).

Hence, POPI and HPI focus not on average national rates but on the proportion of people with insufficient opportunities in the key areas of human development. POPI and HPI characterize the level and dynamics of poverty better than poverty indexes only by incomes or expenses, and serve as important tools to identify groups of population and households in need for specific aid.

*Multidimensional poverty index (MPI)* is a new index intended to create more detailed picture of people living in poverty, which allows comparison by countries, regions and worldwide. Multidimensional poverty index replaces Human Poverty Index (HPI) that had been published since 1997.

MPI bases on the latest theoretical achievements and acts as the first and only global index providing valuable supplement to the traditional income-based poverty indicators.

MPI bases on three main sets of data widely available and correlated by the most developing countries:

- Demography and Health Survey (DHS);
- UNICEF Multiple Indicator Cluster Survey (MICS);
- World Bank's World Health Survey (WHS).

Human Development Report (HDR) 2011 provides assessment for 104 countries with total population of 5.2 billion (92.0 % of population in

developing countries). Nearly 1.7 billion people covered by this assessment, one third of the total population, live in multidimensional poverty.

Multidimensional poverty index (MPI) reflects numerous types of deprivation in education, health, and living standards at individual level. It uses microlevel data from household surveys; unlike Human Development Index adjusted to inequality, all indicators required for MPI should be taken from one survey.

When calculating the index each person is given a certain deprivation index depending on what kind of deprivation his/her household suffers by each of 10 component indicators. The maximum index value is 100, each dimension has equal value (i.e. the maximum index value by each dimension is 33.3%). The dimensions "Education" and "Health" have two indexes; therefore the value of each component is 5/3 (or 16.7%). Dimension "Living standards" has six indexes therefore the value of each component is 5/9 (or 5.6%).

The following thresholds are set:

- education: lack of household members with completed 5-year education; minimum one child of school age (up to 8<sup>th</sup> grade) who does not go to school;
- health: at least one household member gets insufficient nutrition; one or more children died;
- living standards: lack of power, lack of access to clean potable water, lack of proper sewage system, "dirty" fuel for cooking (manure, wood or wood coal), dirty floor at home, lack of a car, truck or similar motor vehicle and availability of maximum one of the following technical means: bicycle, motorbike, radio set, fridge, telephone or TV set.

For definition of a "multidimensional" poor person deprivation indexes by each household are summarized thus giving the total household deprivation index. A threshold of 33.3% is used for differentiation between the poor and the non-poor, which is an equivalent of one third of weighted indicator. If the indicator is 33.3% or higher such a household (and each member) is dimensionally poor. Households in which deprivation index is equal or more than 20.0 % but less than

33.3%, are vulnerable or at the edge of multidimensional poverty. Households in which deprivation index is 50% or higher, are in severe multidimensional poverty.

The dimensionally poor without access to potable water are those who have no access to potable water at the distance of 30 minutes on foot from home to the source of water.

Potable water is identified according to the Millennium Development Goals and includes:

- water supply in settlements, land plots or yards;
- public standpipes, wells, protected sources, rain water storage facilities,

bottled water (if one extra source of water is improved).

The sources of water do not include:

- unprotected wells and sources;
- water delivered by vehicles in small tanks or barrels, delivered by tank

trucks and bottled water (if supplementary source of water is not improved);

- water from the surface of rivers, ponds, streams, lakes, dams and irrigation

channels.

The dimensionally poor without access to sewage system include the proportion of population without access to improved sewage system. Improved sewage system includes water closets with flushing tanks or manual washouts to the sewage system or septic tank, ventilated water closets with improved cesspit, cesspools with hole and punching toilets. However, they are not considered as improved if they are used by several households or intended for public use.

The dimensionally poor without access to modern types of fuel. Households are considered deprived of modern fuel if they cook using wood, coal or dried manure.

The population below the international poverty line includes those who live for less than USD 1.25 per day by the purchasing power parity.

The population living below the national poverty line includes those who live below the national poverty line set by the national government. The national

assessments are based on weighted assessment of sub-groups based on the findings of household surveys.

The Human Development Report 2011 provides that in South Asia and Africa to the South from Sahara – the two poorest regions – over 90% of dimensionally poor population do not have access to modern fuel for cooking.

Over 85.0 % of the poor in both regions do not have access to sewage system connected to water treatment system. Some Arab countries face acute problems with water affecting over 60.0 % of dimensionally poor population.

65.0 % of Madagascar population does not have access to clean water. This provides a large variety of consequences. Most schools on Madagascar do not have flowing water for required hygiene and sewage system, therefore student get sick regularly, miss classes and study badly. According to assessments on Madagascar the losses of school time because of diarrhea compose 3.5 million days.

The global inequality by income and respective negative trends has reached huge figures. The income of 5.0 % of the richest people in the world is 114 times higher than the income of 5.0 % of the poorest. The income of 1.0 % of the richest is equal to income of 57.0 % of the poorest people. 25 million rich Americans have the same income as almost 2 billion of the poorest people in the world. This means that monitoring and restraining inequality by income are required not only to provide wider opportunities to as many people as possible but also to reduce social conflicts, especially in the regions with high level of inequality. Expanding globalization, reducing cost of access to information and increasing opportunities to get it cause growing recognition of the global inequality. People compare themselves not only with those they live in the same country but also with the residents of other countries. Excessive differentiation by countries in this situation becomes destructive and dangerous. Reduction of the growing risk of tension becomes extremely indispensable.

The key instruments by using which the state regulates differences in incomes of various groups include progressive taxation, property and inheritance taxes as well as a system of social allowances.

### ***Control questions***

- 1. What is the difference between “living standards” and “quality of life”?*
- 2. Specify the main indexes of the quality of life.*
- 3. What is the economic nature of inequality?*
- 4. Explain the meaning of Lorenz curve and Gini index.*
- 5. What poverty concepts do you know?*
- 6. What does living wage mean?*

## CHAPTER 6. HUMAN DEVELOPMENT FACTORS

### 6.1. Education and human development

Nowadays education has become the most significant factor of human and society development. Educational facilities are the main channels transmitting cultural heritage from one generation to another, power tool for child and youth socialization, the main form of professional training. Education gives knowledge, assists in adoption of social standards, prepares to carry out adult roles, forms start positions in economically active life.

As provided by the definition adopted by UNESCO 20<sup>th</sup> session education is a process and result of improving the capacities and behavior of a person through which he reaches conscious maturity and individual growth.

For assessment of the education impact on formation of moral and intellectual needs and capacities of a person the valuable characteristics of education are usually considered from three interrelated positions: person, state and society.

*At the personal level* it is the most complete self-actualization, opportunity to develop intellectual capacities. At the same time it is also an acquisition of general and professional knowledge providing opportunity for self-actualization of a person. An educated person is richer in his spirit, his life is full of not only material values. Education allows a person realization of his spiritual needs, make his life more complete and harmonious.

*At the state level*– the state should be interested in development of the national intellectual potential. At the time of wide spread of the “knowledge economy” scholarship becomes the most important component for economic development and accumulation of the national wealth. Spiritual wealth of a nation forms legal culture as well as the ability of the nation to live and work in free, democratic, and legal state, realize human rights and freedoms, use them in the interests of a person, state and society.

*At the level of the society* education should focus on forming the special global spiritual values, public mentality and vision of the world aimed at

development and progress of the human society. Intellectual development of the society is a basis of social progress.

From the economic point of view accumulation of knowledge of a nation is a wealth that preconditions economic development, scientific, cultural and social progress of the society. The famous American economist T. Stonier thinks that *“in the post-industrial economy knowledge has replaced the traditional triad of land, labor and capital and become the most important basis of contemporary production systems”*<sup>1</sup>.

The Universal Declaration of Human Rights adopted by UN General Assembly in 1948 stated the right to education as one of the basic human rights. The rights to education is also supported by the international acts, such as the International Pact on Economic, Social and Cultural Rights, European Convention on Human Rights and Fundamental Freedoms.

It is estimated that physical capital has (average worldwide) only 16.0 % of the national wealth, while human capital takes 64.0 %, and natural capital – 20,0 %. The share of human capital tends to grow together with economic development – up to 80.0 % in Germany, Switzerland, and Japan.

The response to the new trends in socio-economic development of the world community and separate nations as well as contemporary challenges has become an approach to education as the most significant component of human development and study of its features within the framework of this concept.

It is proved that education as a key factor of human development make great impact on solution of a whole range of economic, political, social and humanitarian problems including but not limited to:

- achievement in each country of the living standards and quality of life worthy of contemporary civilization;
- provision of effective employment;
- reduction of social inequality;

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<sup>1</sup> T. Stonier. *The wealth of Information: A profile of the post-industrial economy. New technological wave in the West* / Edited by P.S. Gurevich –M.: Progress, 1986. P.24.



- ensuring sustainable development;
- strengthening civil society structures;
- observance and effective realization of human rights;
- creating an enabling environment for complete and comprehensive realization of human opportunities.

Based on the understanding of the significance and place of education in the modern multipolar world the international community has formulated a number of strategic programs and outlined solutions to support the adequate role of education in human development. One of them is a strategy "*Education for all*". The main principles were formulated during the Conference arranged by UN in 1990 in Jomtien (Thailand), where the World Declaration on Education for All was adopted. It stated based on the Universal Declaration of Human Rights and Convention of Child Rights that: "*Any child, young man and adult have the right to education satisfying his basic educational needs in the highest and fullest meaning of this notion*". It was announced that education system should promote development of talents, potential of each human, encourage personal development so that people could improve their own lives and transform the society.

The concept of "Lifelong education" adopted in 1996 by Education Ministers of OECD countries is very close to the Strategy "*Education for All*". The concept of continuous education is of specific significance for transition economies with rapidly changing life models both of the society as a whole and a separate person. The essence of the notion "continuous education" is an acceptance of the need to create conditions and develop human capacities to study not only at school age but during his labor activities in various situations both through formal and informal education and training facilities. Thus, the concept "Lifelong education" means an idea according to which education in various forms and various areas should take place during at all life stages from birth to death.

In April 2000 during the World Education Forum in Dakar (Senegal) the participants reviewed the outputs of the decade of the "Education for All" strategy implementation. The principle document of the Forum "Dakar frameworks.

Education for all: execution of our commitments" confirmed once again that the right to education is one of the main human rights. It serves as an essential for effective involvement of people into the public and economic life in the 21st century facing globalization process.

Dakar Forum defined six goals for further promotion of the strategy "Education for All":

- expansion and improvement of comprehensive measures on care and treatment of little children, especially related to the most vulnerable and marginalized children;

- by 2015 all children are to be provided with open access to free compulsory and high-quality education especially girls, children from vulnerable families and ethnical minorities;

- satisfy educational needs of all young men and adults based on equal access to respective educational programs and getting vital skills;

- increase by 2015 adult literacy rate by 50.0 %, especially women, and provide all people with equal access to basic and continuous education;

- eliminate by 2005 gender gaps in basic and secondary education and achieved by 2015 gender equality in education with a special focus on providing girls with full and equal access to high-quality basic education and creating conditions for their good academic performance;

- improve education quality in all aspects and ensuring good academic performance for all so that each person could achieve accepted and measurable educational results, especially in terms of literacy, counting and critical vital skills.

Today all across the world people have higher education level than they have ever had before. This is proved by variability of education indexes. In 1960 the period of education in the world for an average person aged 15 or older was less than 4 years, in 2012 this index at the global level doubled while in developing countries almost tripled (from 1.9 to 6.4 years). Since the publication of the first Human Development Report in 1990 the average period of education has increased

by 2 years, the total enrollment of population - by 12%, literacy rate increased from 57.0 to 85.0 %.

The average education index used in HDI composes data on education enrollment and literacy and reflect the general picture of wide spread of progress. However, this progress assessment may not consider the latest trends in education enrollment of young generation. The people who did not attend schools are usually adults: in developing countries almost 36.0% of people aged 65-74 have never gone to school. For comparison, in the group of the people aged 15-24 this figure is just 7.0 %.

The literacy rate of young people in the world today is over 95.0 % in 63 of 104 countries with available national data, and 99.0 % in 35 countries.

The average global enrollment with basic education is now 100.0 % both in developed and developing countries. Today not only more children go to school, most of the complete school: the share of those with complete basic education has increased from 84.0 to 94.0 %.

However, in terms of higher and vocational education there is still a substantial gap between the developed and developing countries. While in high-income states the share of high-school student has been growing rapidly during the last 20 years, low- and middle-income countries have managed to achieve insignificant changes.

In most countries of the world expansion of education enrollment is linked with increase of the public financing. Students go mainly to public schools especially at the basic (92.0%) and secondary (85.0%) levels. The public expenses for education in 2006 composed 5.1 % of GDP against 3.9 % in 1970. It should be noted that growth is a long-lasting trend, given that a hundred years ago education assignments composed 1.0 % of GDP.

According to experts, there is a direct connection between increasing expenditures for education and extending period of education on the one hand and dynamics of economic growth and higher living standards – on the other. It is estimated that in the short-term period (first 5 years) two thirds of investments into

education are paid back, the rest is returned during the next 5 years. The economic efficiency of improved education may cover all expenditures for basic and secondary education.

UN expert group reckons that increasing the share of education expenditures in GDP by 1.0 % and extending period of education by 3 years on average result in the rise of the pace of economic growth by 1.5 % in 15 years, which at the end results in cumulative decrease of the number of the poor by 17.0 %.

Having initiated construction of a modern state with developed market economy Uzbekistan set fundamental transformation of education system as one of the strategic goals. It was clearly realized that only people with advanced knowledge, intellectual potential and high technologies are able to achieve the strategic development goals. The education transformation policy became a key link in the implemented course of reforms and renewal of the society, a required precondition for sustainable economic development, integration of the country into the world community.

According to the Article 41 of the Constitution of the Republic of Uzbekistan all citizens of the country have the right to education. The state guarantees free general education. Schools are under control of the state<sup>1</sup>.

The Law "On Education" states education as a priority in the area of social development in the Republic of Uzbekistan.

The main principles of the public policy in the area of education include the following:

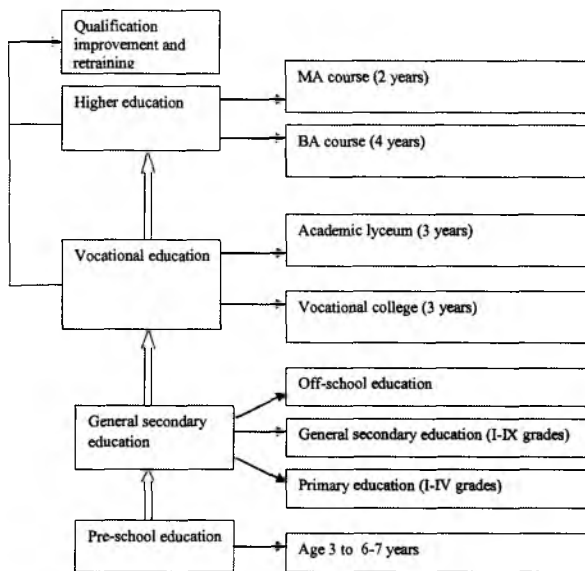
- humanistic, democratic character of education and treatment;
- continuous general secondary and vocational education;
- free choice of specialization of vocational education: academic lyceum or vocational college;
- secular character of education;
- open access to education within the framework of the public education standards;

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<sup>1</sup> The Constitution of the Republic of Uzbekistan // <http://www.lex.uz>.

- universal and differentiated approach to selection of curricula;
- encouragement of scholarship and talent;
- mix of the state and social management in education system<sup>1</sup>.

Deep transformation of education system in Uzbekistan is linked with the National Cadre Training Program adopted in 1997<sup>2</sup>. The Program is unique in its character and content, provides transition to 12-year education and focused on ensuring formation of a comprehensive continuous education system (Fig.6.1).



**Fig.6.1. Continuous education system in Uzbekistan**

This system became an integral component of the national “Uzbek model” of economic and political reforms based on gradual, evolutionary principle of construction of a new society in the country.

<sup>1</sup> The Law of the Republic of Uzbekistan “On Education” // Bulletin of Oliy Majlis of the Republic of Uzbekistan, 1997, №9, p. 225.

<sup>2</sup> National Program for Cadres Training (Approved by the Law of the Republic of Uzbekistan dated August 29, 1997) //http://www.lex.uz.

The National Cadre Training Program was a result of serious search and surveys, summarization of the best practices of the developed countries and focused on strengthening democratic values in the awareness of people, first of all the growing generation, aimed at formation of comprehensively developed and independent thinking person with his own vision, choice and solid civil positions in his life.

*Performance of continuous education system in Uzbekistan* is carried out on the basis of the state education standards, continuity of curricula at various levels and includes the following types of education:

- pre-school education;
- general secondary education;
- vocational education;
- higher education.
- qualification improvement and retraining;
- off-school education

General education curricula cover:

- pre-school, primary (I-IV grades);
- general secondary education (I-IX grades);
- vocational education.

Professional education curricula include vocational, higher (BA courses and MA courses), qualification improvement and retraining.

Academic lyceums established under higher education institutions provide an opportunity to get deeper knowledge to obtain higher education by the selected professions, while vocational colleges provide education by special subjects and give an opportunity to get a profession of medium qualification by 2-3 specialties so that each person entering an adult life could realize high capacities and find his place in the society.

The State National School Education Development Program is implemented within the framework of the National Cadre Training Program.

The National Cadre Training Program provides the following:

- a person is the main subject and object of the cadre training system, consumer and producer of education services;
- the state and the society are guarantees of training and demand for professional staff, regulating performance and supervision of the education and cadre training system;
- continuous education is a basis for training qualified competitive professional staff including all types of education, state education standards, performance structure and environment;
- science is a producer and consumer of highly qualified specialists, developer of advanced pedagogical and information technologies;
- industry is a key customer defining the need in professional staff and requirements to the quality and level of the professional training, participant of financing and material-technical provision of the cadre training system.

*At the first stage* of implementation of the National Cadre Training Program (1997-2001) the country established a new structure of continuous education system as well as determined the mechanism to manage all links of this system.

A conceptually new legal framework was established for cadre training and continuous education providing establishment of competitive environment and effective performance, a system of the state system of competence assessment and accreditation of educational institutions was introduced, the national standards for all types of continuous education were elaborated.

The priority objective of the *second stage* (2001-2005) was ensuring the required quality at all stages of continuous education. With this aim a single system of education monitoring and management was established using a feedback approach.

The logical completion of the national education programs in Uzbekistan was creation of a system providing full coverage of the school leavers with study at academic lyceums and vocational colleges, shift to 12-year secondary education. The principal feature of the national model is that after 9 years of study at general secondary school the next 3 years students study at vocational colleges and

academic lyceums, which together with general subjects provide professional training by 2-3 specialties demanded on the labor market.

The Law provides that 12-year education in Uzbekistan is compulsory for all. The country considers it as a principal issue especially in terms of remote rural areas. After 12-year compulsory education each person by his own wish may continue study at higher education institutions to get BA and MA degrees.

Within the framework of the Program large-scale work was done for reorganizing the teacher training and qualification improvement system for colleges, lyceums and universities of the country, and first of all, on conceptual revision and approval of new standards for methodological and training guidelines in accordance with the modern requirements, fundamental changes were made in terms of assessment and encouragement of teachers' performance.

Crucial reforms in the national education system was the most important factor and fundamental ground for changing the perception and vision of the people, growth of their political and civil activities, confidence in their future.

## **6.2. Health is a key condition of human development**

In the Human Development Concept health is considered as an ability to ensure sustainable self-security and self-development. This means that *health* is a physical state of the body in which it as whole and all its organs able to perform the required functions; absence of illness, ailments.

Protection of human health (healthcare) is one of the state's functions. In the world scale protection of human health is performed by the World Health Organization (WHO).

WHO defines health as *"is a state of complete physical, mental and social well-being, when all organs and systems of a human body are balanced with production and social environment"*<sup>1</sup>.

This definition provides three components of health, i.e. Physical, mental and social.

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<sup>1</sup> WHO Constitution // [www.who.int.ru](http://www.who.int.ru)



*Physical health* is a natural state of a body preconditioned with normal functioning of all organs and systems.

*Mental health* is characterized by the level and quality of thinking, development of attention and memory, extent of emotional sustainability and development of conative characteristics.

*Social health* is defined by the moral principles which provide the base ground of the social life of a person, i.e. His vital activities in a specific human society. It is characterized by, first of all, attitude of a person to labor, active non-admission of asocial tempers and customs contradicting the normal life style.

In the medical and sanitation statistics individual health means lack of defined disorders and illness, population health covers the process of reduction of mortality, sickness and disability rates. This provides the following classification:

- individual health - health of a separate person;
- group health - health of social and ethnical groups;
- regional health - health of the population of administrative territories;
- public health - health of population, society as a whole.

The following medical and demographic indexes are used for assessment of public health:

1. Population change indexes

- birth rates, fertility rates;
- mortality rates, general and by age;
- natural growth of population;
- wedding rates, etc.

2. Indexes of population's mechanical movement:

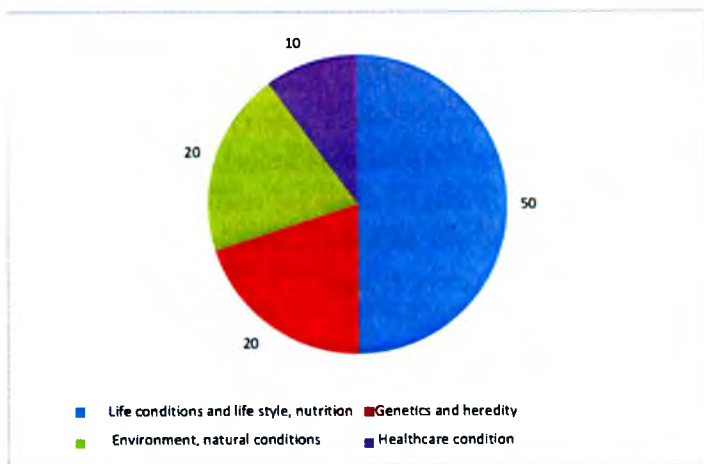
- migration;
- immigration;
- integration.

3. Sickness rates and spread of diseases.

4. Disability rates.

5. Physical development of population.

According to the data of the World Health Organization health is affected by life conditions and life style, nutrition, genetics and heredity, external environment, natural conditions, development of public health system (Fig.6.2).



**Fig.6.2. Factors affecting human health (%)**

From WHO point of view, human health is a social characteristic, therefore the following indexes are recommended for assessment of public health:

- proportion of allocations for healthcare in the gross national product;
- accessibility of the primary medical and sanitary aid;
- population immunization status;
- extent of the pregnant examined by qualified staff;
- child nutrition;
- child mortality;
- average life expectancy;
- hygiene literacy of population.

Achievement of the goal of the general coverage with medical services means that the government and population agree to allocate a certain share of tax revenues for healthcare, and are ready to distribution of expenses and sharing risks.

An agreement should also be achieved in terms of the selected scheme of medical insurance.

Developed countries able to provide guaranteed access to medical services for all population strata. For instance, Sweden, Norway, Canada and Australia use budget or social insurance model to finance healthcare. Application of these mechanisms in the mentioned countries became possible thanks to: high tax rates (taxes share nearly 50.0% of population's income), as well as broad taxation base (over 70.0 % of the working population pay taxes). This allows the government collection of funds from wide range of population groups and diversify risks.

Provision of the general coverage of population with medical services the following should be considered:

- definition of the groups of population and types of diseases to be financed by the public budget or social insurance. Financial risks and opportunities are to be assessed as well;
- establishment of a system of public guarantees of free medical services which allows coverage of expenses for emergency aid and treatment of socially significant diseases and provision of access to medical services for socially vulnerable groups of population.

The indexes of coverage of population with health services reflect to what extent the population in need is actually covered with important healthcare measures. Those measures include:

- qualified medical services for women during pregnancy and birth;
- reproductive health services;
- immunization to prevent typical child infections;
- provision of children with medicines containing vitamin A; treatment of child, teenage and adult diseases.

The coverage indexes are calculated as a rule through division of the number of people who got specific treatment or prophylaxis by the number of population, who has the right to those services or need them. For instance, the coverage with immunization of children aged 1 can be calculated through division of the number

of children who got a specific vaccine by the total number of children aged 1 in the country.

In general, the global reporting of health indexes the main attention is paid to the average national indexes. However, the indexes of distribution of health indexes and health services within countries and among population groups are also important. Those data help to identify inequality in terms of health, unfair and preventable differences in the condition and provision of health services preconditioned by such factors as, for instance, socio-economic situation (education, types of occupation, welfare or household income), geographic location, ethnical group and gender.

Health state of a nation in a specific country can be assessed by the expected life expectancy at birth as well as mortality of children under 5 (probability of death from birth till 1 year and 5 years accordingly) and adult mortality rates (probability of death in the age of 15–60 years).

Child mortality rates and trends are specifically important for understanding of the public health state since almost 20.0% of the global mortality rates are mortality of children under 5. Neonatal mortality (death during 28 days from birth per 1,000 of live-born) has a substantial share of child mortality in many countries especially in case of low incomes.

Although assessment of the life expectancy rates demonstrate how long a person can live given the present mortality rates under specific conditions they say nothing about the health during the life. Mortality statistics by itself is not enough for description and comparison of the health of various population groups, because they do not examine the burden of poor health caused by chronicle diseases and have no information on non-fatal consequences for health.

On the contrary, "life expectancy" at birth is an average number of years a person can live being healthy, given the number of years lived with incomplete health caused by diseases and/or injuries. As a result, this index considers fatal, non-fatal consequences for health and types of disabilities, of which the most

spread ones across the world, are loss of hearing ability, visual impairments, mental disorders.

In general child mortality rates are much lower in wealthier countries comparing with poor ones: in the low-income countries the average child mortality rate in 2008 was 109 per 1,000 of live-born while in high-income countries this rate is only 5 mortal cases, the difference is over 20 times.

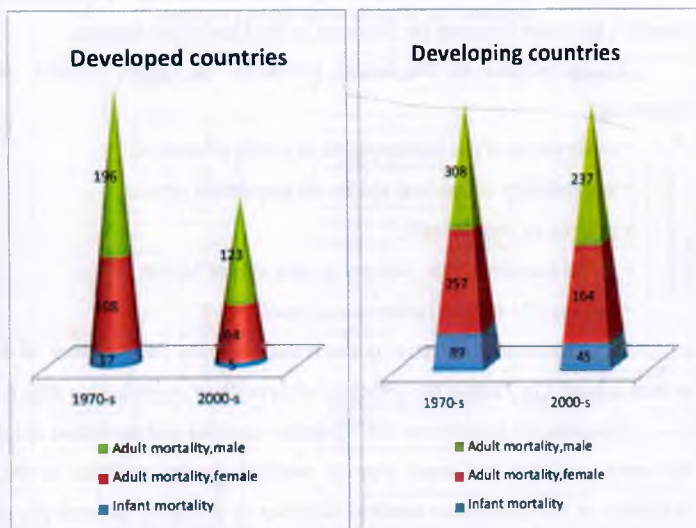
Some low-income countries managed to lower mortality rates, in the most groups of countries by income levels there are differences in child mortality rates. In low-income countries child mortality rates in 2008 varied from 14 to 257 mortal cases per 1,000 of live-born, which means 18-fold difference.

After 1990 child mortality rates decreased in all groups of countries by income levels, the pace of decrease, as a rule, is higher in high- and medium-income countries, than in the low-income countries. In 1990–2008 the average child mortality rates decreased by almost 50.0% in the countries with income below medium and only by 31.0 % – in low-income countries.

Many countries made substantial achievements in terms of life expectancy. Today a child born in any country, as expected, will live longer than in any moment of the previous history. This stems from the fact that all across the world the infant mortality rates have been decreasing faster than adult mortality rates (Fig.6.3).

If child mortality remained as high as in the late 1970-s, than today such deaths would be 6.7 million more. The most rapid absolute period for the period from 1970-s till 2000-s was observed in developing countries. Infant mortality rates there decreased by 59 deaths per 1,000 of the live-born, which is four times higher than per 16 deaths per 1,000 in developed countries.

However the reduction in per cent remained more rapid in developed countries (77.0 %) comparing with developing countries (59.0 %). Huge gaps in health still remain, in developing countries infant mortality per 1,000 live-born is still 8 times higher than in developed countries. Developed countries share less than 1.0 % of child mortality.



**Fig.6.3. Progress of the main health indicators in the world in 1990-s and 2000-s<sup>1</sup>**

*(Infant mortality - number of deaths per 1,000 of live-born, adult mortality – number of deaths per 1,000 adult population)*

Maternal mortality rates also reduced all across the world. UN assessment for the period since 1990 demonstrate moderate 5.0 % decrease – from 430 cases of death per 100,000 of live-born to 400. These data indicate that progress is much slower than it is required to achieve UN Development Goals formulated in the Millennium Declaration, i.e. reduction maternal mortality by  $\frac{3}{4}$  for the period of 1990-2015.

Adult mortality since 1990-s has decreased by 23.0 % among women and by 6.0 % among men.

Uzbekistan undertakes necessary measures to provide guarantees of the rights to health protection by the state. The legal framework for healthcare development includes legal acts such as the Constitution of the Republic of

<sup>1</sup> The Real Wealth of Nations: Pathways to Human Development. Human Development Report – 2010. – M.: Press house "Ves Mir", 2010. P.34.

Uzbekistan, the Law of the Republic of Uzbekistan “On Protection of Citizens’ Health”, the State Program for Reforms in the Healthcare System.

The principles of the health protection of Uzbek citizens include the following:

- observance of the human rights in health protection;
- accessibility of medical aid for all population strata;
- priority of prophylaxis;
- social security of the citizens in case loss of health;
- unity of the medical science and practice.

In Uzbekistan the basis of the State Program for Reforms in Healthcare system adopted in 1988 is the principle of *three-level organization* (Fig.6.4).

*The primary healthcare link* - primary medical and sanitation aid (PMSA) – the most available and main type of medical service provided at the place of residence of the patients at medical facilities or at home. General physicians and emergency aid doctors work here. In the state system PMSA facilities include in urban areas – family polyclinics, in rural areas - rural medical facilities, some of them have branches in remote settlements in the form of first aid and obstetrics stations.

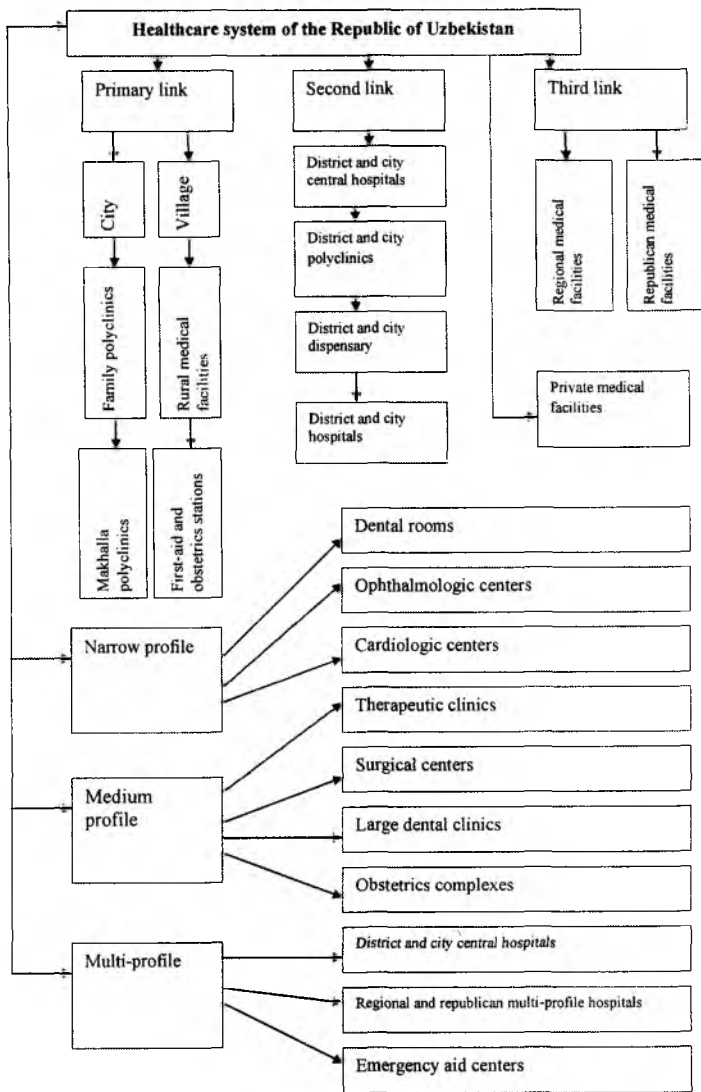
*Secondary healthcare link* – central (city) hospitals and polyclinics, district dispensaries and hospitals where special treatment and diagnostics medical technologies and treatment are carried out by doctor-specialists.

*Third healthcare link* includes republican and regional medical facilities – narrow profile, medium profile and multi-profile.

*Narrow profile medical facilities* – dental rooms, ophthalmologic, cardiologic and other centers.

*Medium profile* – therapeutic clinics, surgical centers, large dental clinics, obstetrics complexes, etc.

*Multi-profile* – central district and city polyclinics and hospital, regional and republican multi-profile hospitals and emergency aid centers.



**Fig.6.4. Healthcare system in the Republic of Uzbekistan**



To provide free emergency and highly qualified medical aid a network of specialized hospitals and departments which meet high requirements.

### **6.3. Demographic situation and its role in human development**

Demographic features are in the basis of any social process, economic, political, social, and make impact on other social processes. Fluctuations in birth rates in a certain period of time appear in respective fluctuations of employment on labor market, influence public expenditures on social needs, affect development of the national education and healthcare systems. Changes in demographic trends and human development are two interrelated and preconditioning processes.

*Demography* (from ancient Greek δῆμος — the populace, from ancient Greek γράφω — write) is a science on the correlations in population reproduction, dependence of the demographic situation on socio-economic, natural conditions, migration, studying number of population, territorial distribution and composition of population, changes, reasons and consequences of those changes and providing recommendations for improvement.

The subject of demography is the law of the natural reproduction of population. In general there are three important objectives of demography as a science:

- study of trends and factors of demographic processes;
- elaboration of demographic forecasts;
- formulation of demographic policy measures.

For a long period of time the history of demographic science has been linked with development of empirical form of cognition, being limited in collection, processing and interpretation of data on population in accordance with the practical needs. Performance of this function is accompanied by continuous improvement of the study methods.

Term "demography" appeared in the title of a book by French scientist A. Guillard, *Eléments de statistique humaine ou Démographie comparée* —1855. He considered demography in a broad sense as "natural and social history of human

kind” or more narrow as “mathematic cognition of population, general movement, physical, civil, intellectual and moral state”.

Official adoption of a term “demography” took place in the title of the International Congress of Hygiene and Demography in Geneva in 1882.

Ancient people experienced the need to register population (taboo, child registration). In the Ancient world, Ancient China and in the Middle Ages the knowledge and notion on population formed haphazardly in the general mix of undifferentiated scientific knowledge: somewhere separate attempts were made to regulate family behavior, birth rates. During that period the thinkers paid attention to the correlation between the number of population and general development.

Confucius (nearly 551—479 BC) made an attempt to define the ideal proportions between the area of cultivated land and number of population. Because, by his opinion, violation of those proportions may cause the following:

- small population number may result in decrease of cultivation of arable land and refusal to pay taxes;
- excessive population density may result in poverty, idleness, social tension.

This means that government regulation is requires managing growth of population and adoption of specific measures, for instance resettlement of residents form densely populated districts to sparsely populated ones.

Platon (428—347 BC) in the study on the perfect state proposed a limited number of populations as a compulsory condition: 5,040 people of free population. He offered to set specific standards of marriage relations, by requiring men to have children only at the age of 30-55. He wrote *“let the governors set the number of marriages to keep the constant number of men given wars, diseases, etc., so that the state neither increased nor decreased as far as possible”*.

Aristotele (384—322 BC) when studied the problems of population considered the perfect state the one with small free population. Small population promotes establishment of social harmony, which is impossible in case excessive population. Abundance of population contributes to the growth of disturbance and crimes because some part of citizens, having no land, falls into poverty.

The true beginning of establishment of demography as a science relates to the second half of the XVII century, when development of capitalism caused an urgent need to study population. Historically the first object of scientific study in demography was mortality. The knowledge of the order of the generation mortality allowed assessment of life expectation (the regular birth rates, accordingly the number of population) and calculate the life insurance payments depending on survival.

In the XVIII century first attempts were made to monitor the changes in the number of died and the born and the number of population in separate countries. In the late XVIII — early XIX centuries USA laid the basics of the contemporary population census (1790), the current registry o population was established. The central object of study in demography was reproduction of population.

*Reproduction of population* is an alternation generations as a result of the natural population movement. Reproduction of population is defined by birth and mortality rates. In accordance with the changes in the range of demographic indexes three main historical types of population reproduction are indicated.

The first and the earliest one is a so called *archetype of population reproduction*. It dominated in the primitive society at the stage of appropriating economy and today is quite rare.

The second type – “*traditional*” or “*patriarchal*” reproduction dominates in agrarian society or at early stages of industrial society. The key distinguishing characteristics include high birth and mortality rates, low average life expectancy. Having many children is a tradition, contributes to better family performance in agrarian society. High mortality rates are caused by low living standards, hard work and bad nutrition, poor development of health services. This type of reproduction is typical for many low-developed countries including Nigeria, Bangladesh and especially Ethiopia, where birth rate is 45.0 %, mortality rate is 20.0 %, average life expectancy is only 43 years.

In most developing countries (Mexico, Brazil, the Philippines, etc.) “*traditional*” type of population reproduction has changed for the recent decades.

Mortality rates reduced to 6.0-10.0% thanks to achievements in medicine. However, traditionally high birth rates still remain the same. As a result, the population growth rate is very high, 2.5—3.0 % per annum. The countries with “transition” type of population reproduction have preconditioned high growth rates of the global population in the end of the XX century.

“Modern” or “rational” type of reproduction is characterized by low birth rates close to mortality rates, low natural growth of population and high life expectancy. It is typical for developed economies with higher living standards and culture. Low birth rates here are linked closely with deliberate regulation of the family size, while mortality rates are affected first of all by high proportion of old population.

The recent 50 years have demonstrated the trend of growing attention to study demography from the point of view of economic and social factors of general development.

At present the criteria for assessment of efficiency and character of demographic policy of a specific country is how this policy contributes to solving human development problems. This means that between demographic policy and solution of human development problems there is a direct and immediate relation characterized by mutual dependency and conditionality.

Demographic policy is a dedicated performance of government bodies and other social institutions in regulation of population reproduction processes. It provides measures aimed at regulation of population reproduction, achievement of optimal quantity and quality characteristics.

Optimization of demographic process is not only achievement of specific parameters and positive dynamics in the number and structure of population, compliance with economic growth, but also a program for more complete satisfaction of the growing needs of people, ensuring high level of physical and spiritual health.

The unit in the aggregate in demography is a human, who has numerous characteristics: gender, age, family status, education, occupation, nationality, etc.

Many of those characteristics change in the course of life. Hence population always has such characteristics as number and age-gender structure, family status. Changes in the life of each person cause changes in population. The range of those changes composes movement of population.

The general characteristics of population growth to the highest extent is preconditioned by the natural growth, which is expressed in the absolute number as a difference between the number of the born and dead for a year. High natural growth of population is usually considered as favorable demographic effect if accompanied by low mortality. However in a number of countries high unregulated birth rates cause tensions in demographic situation with many signs of demographic crisis: high infant and maternal mortality, poor health of population, reducing average life expectancy, etc.

The usual movement of population is classified as follows:

- *natural* – includes birth rates, mortality rates the study of which is an exclusive competence of demography;

- *mechanical (migration)* is a scope of movements of population across the territory which define the character of settlement, density, seasonal and push-pull migration of population.

- *social* – shift of people from one social group to another. This type of movement defines reproduction of the social structures of population. This link between population reproduction and changes in social structure is studied by demography.

The natural growth of population is a difference between the number of the born and dead in case positive result.

Changes in the number of population in separate settlements, regions, country caused by migration are a mechanical movement of population. Migration is a movement of people (migrants) across the borders of certain territories with a permanent or relatively long-lasting change of the place of residence.

Between migration and reproduction processes there is a close interrelation. Migration affects birth rates, marriages, health and mortality of people, in this

quality it is one of the factors of population reproduction. However the role of geographic and economic factors (natural conditions, climate, economic development and social infrastructure) in migration processes is much more visible. Population migration means, first of all, migration of labor force.

Ongoing substantial changes in the world and related growing role of science, education, technological progress in development of the national economies, the significance of the factors affecting the character of human activities has increased greatly. The most important factors determining the dynamics of the socio-economic processes include mobility and migration of population. Therefore, the International Migration Organization calls them “key inevitable and potentially beneficial component of economic and social life of each state and region”<sup>1</sup>.

Migration, as a rule, facilitates transition of activities to the areas, where the cost of human capital is higher. American economists R.G. Ehrenberg and R.S. Smith affirm that population moves from regions with bad opportunities to the regions with better opportunities. Specific determinants of migration behavior (taking decision on movement) are age and education of potential migrant. The highest migration activity in young able-bodied ages is stipulated by the fact that young migrant has more time to get and use benefits of migration<sup>2</sup>.

During the recent years the focus in analysis of labor migration has shifted to the study of human capital accumulation as an endogenous factor of the national economic growth. The supporters of this approach (R. Lukas, P. Romer, etc.), given that the accumulated human potential is the most critical precondition of economic development, think that the international labor migration is one of the explanations of differences in the pace of economic growth of the nations. By their opinion, the essence of endogenous mechanism is in generation of economic growth in accumulation of human capital: “In the long run production per the unit of capital may increase even when investments into the basic capital have

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<sup>1</sup> Annual Report of the Certification Officer for 2007-2008. – P.2. // <http://www.un.org>.

<sup>2</sup> R.G. Ehrenberg, R.S. Smith, *Modern Labor Economics: Theory and Public Policy*. – M.: MSU, 1996. - P.338, 367.

exhausted themselves, when technically advanced human capital and growing knowledge ensure increase of production”<sup>1</sup>. The international labor migration facilitates accumulation of human capital by immigrants.

In population statistics collecting empirical data and population accounting the following categories are considered:

- *available population* is a share of population which at the moment of assessment locates in a certain settlement irrespective of the permanent residence;
- *permanent population* is a proportion of population which lives permanently in a certain settlement irrespective of the actual location at the moment of assessment;
- *temporarily absent* are the people who were absent at the place of permanent residence (for the period up to 6 months) at the moment of assessment;
- *temporarily present* are the people temporarily located in a certain settlement at the moment of assessment (for the period up to 6 months).

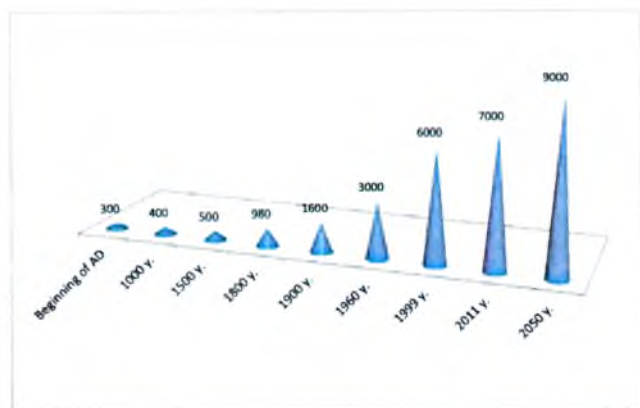
Quality of population is a category characterizing the specificity of population as a subject of social vital activities, public production and social relations, i.e. ability of population to respond to the established natural, technical, economic, socio-cultural conditions and adapt them to their changing needs. The population characteristics get the form of observed and quantitatively measurable characteristics (birth rates, mortality, education and qualification level, etc.). Improvement of qualitative characteristics, first of all health and education allows increase of efficiency of population reproduction, i.e. keep the number of population and pace of growth through reducing absolute number of deaths and births.

Earth's population - continuously renewing in the process of reproduction, people living on our planet. At the beginning of our era 300 million people lived on Earth, and according to the assessment of the U.S. Bureau of the Census on July 1, 1999 world population size was 6,0 billion people. And in 2011 the Earth's

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<sup>1</sup> Refer to S.V. Ryazanitsev, M.F. Tkachenko The World Labor Market and International Migration. - M. Ekonomika, 2010. - P.73.

population size reached 7,0 billion people, and the forecast for 2050 – 9,1 billion people (Fig. 6.5).



**Fig.6.5. Dynamics of population growth on the Earth (million people)**

The studies of S.P. Kapitsa and other scientists demonstrate that the growth of population on the Earth during the last 6 thousand years (up to 1960-1970-s) followed hyperbolic law, i.e. there has been a trend of absolute growth of population on the Earth proportional to the square of its population<sup>1</sup>. Starting from 1960-s the relative pace of population growth have started to slow down, and the world hyperbolic demographic growth was replaced by the opposite type of growth, logistic. Since 1989 the absolute pace of population growth have started to slow down as well, which is a logical result of demographic transition.

For calculation of the total number of population the following demographic balance equation is used:

$$P = P_0 + (N - M) + (V_+ - V_-) = P_0 + E + V_{pr},$$

where,  $P$  — total number of population:

<sup>1</sup> S.P. Kapitsa. The General Theory of Human Growth. How many people lived, live and will live on the Earth. - M.: Nauka (Science), 1999.



$P_0$  — number of population at the beginning of the year;

$N$  — total number of the born persons;

$M$  — total number of the dyed persons;

$E$  — natural increase of population;

$V_+$  — number of the arrived persons;

$V_-$  — number of left persons.

While the general increase of population is defined by the following equation:

$$P_1 - P_0 = P_{pr},$$

where,  $P_0$  — number of population at the beginning of a period (usually a year);

$P_1$  — number of population at the end of a period.

The equation of the natural increase of population is the following:

$$N - M = E,$$

where,  $N$  — total number of the born persons;

$M$  — total number of the dyed persons.

The value can be negative if the nation has a natural population loss.

The problems of the world population are under constant attention of the United Nations. UN undertakes population studies including the problems of interaction of demographic, economic and social processes, provides assistance to the states in formulation and implementation of demographic programs, arranges the World conferences on various population issues.

In particular, the World population conference conducted in Cairo in 1994 adopted the comprehensive 20-year Action plan important for achievement of interrelation between population, economic growth and sustainable development. It defined the objectives on provision of equality and equal rights between men and women, solution of the problems of reproductive laws and reproductive health. Cairo Action Plan, the goals and objectives served as a baseline document for formulation of the national programs aimed at development of population, increase of the living standards and quality of life of nations.

The Global Millennium Development Goals adopted by UN in 2000 at the Millennium Summit based on the first outputs of execution of the solutions of the

International population and development conference, and particularly 20-year action plan.

The Republic of Uzbekistan signed the Millennium Declaration and makes substantial efforts to achieve the respective population development objectives.

Uzbekistan sets the following key issues of demographic policy:

- improvement of quantitative characteristics (health, physical development, education) of the growing generation;
- fulfillment of the measure to increase life expectancy and labor activities of the people;
- support to family strengthening;
- creation of enabling environment for women and mothers for active involvement into labor activities, improvement of child care and disabled at the cost of the society.

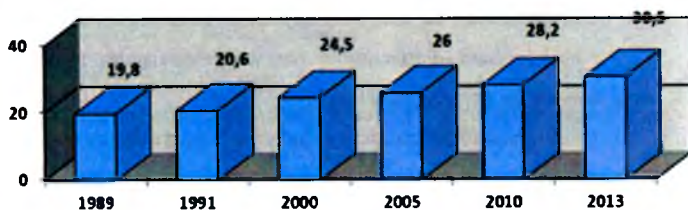
The following demographic features in Uzbekistan remain in the present and affect the human development:

- continuing growth of the population number while under relatively lower growth rates;
- high proportion of child population under 18 in the total structure of population;
- reducing but still relatively high birth rates;
- high specific volume of the persons entering the able-bodied age;
- remaining irregularity of territorial settlement;
- growth of migration outflow of population.

Uzbekistan is a country with rapidly growing population. By the number of population the country occupies the 43<sup>rd</sup> place in the world and 18<sup>th</sup> in Asia. The total population of the country increased from 19.8 million people (data of the population census of 1989) to 30.5 million people as of January 1, 2014 (Fig.6.6).

New sustainable trends of contemporary demographic processes in Uzbekistan are reflected directly in reduction of birth rates, child and maternal

mortality rates, urbanization of rural areas, reduction of the growth rates and absolute increase of the population in the country.



**Fig.6.6. Dynamics of population growth in the Republic of Uzbekistan (million people)**

Starting from 1970-s until 1990 the number of population in Uzbekistan has been increasing by average 700.0 thousand people annually. In 1991-1995 the annual growth of population composed on average 453.8 thousand people or 2.2 %. In 1996-2000 the indexes composed 393.3 thousand people or 1.7 %, in 2001-2005 – accordingly 303.3 thousand people or 1.2 %.

Average annual population growth rates for the years of independence (1991-2012) composed 1.4 %, while the absolute average annual increase was 428.5 thousand people. For those years the number of population in the country increased by 8.9 million people.

The population dynamics in the country is preconditioned by the reduced birth rates: up to early 1990-s the general birth rate composed 33.0-37.0 %, by the end of 1990-s and until now has reduced to 20.0-22.0 %.

The highest absolute growth of population was in the early 1990-s, when it approached to 500.0 thousand people. Later the natural increase of population in Uzbekistan has been reducing and in 2011 it composed 479.5 thousand people, 622.8 thousand of the born persons and 143.3 thousand of the dyed persons.

The reason of the trend of the reducing birth rates in Uzbekistan is first of all a reduction of the general fertility coefficient (average number of births a woman has in her life under condition of keeping the existing conditions of birth in each age). In 1981 this index was 4.81, in 1991 – 4.199, in 2000 – 2.8, by present it has reduced to 2.4, i.e. the number of births reduced almost twice.

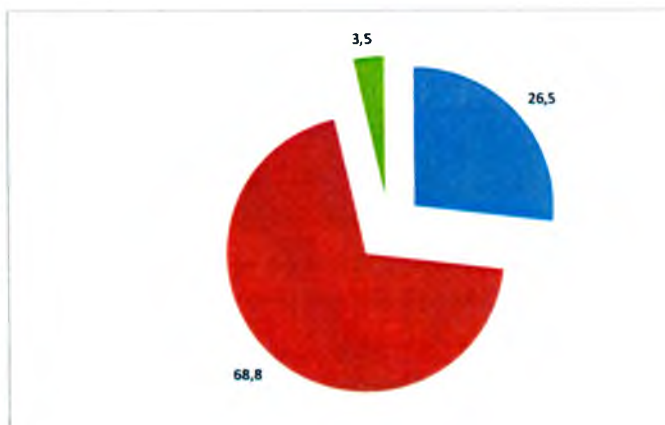
There is a considerable narrowing of the gap between the birth rates in urban and rural areas. In the early 1990-s the difference between urban (26.7%) and rural (39.8%) birth coefficients composed nearly 13.1 points, in 2011 it was only 2.9 % (20.8 – urban and 23.7 % - rural). According to the data of the State Statistics Committee of the Republic of Uzbekistan, as of January 1, 2014 15,552.8 thousand people lived in cities (51.0 per cent of the total population), rural population is 14,935.8 thousand people (49.0%).

The number of children per family also decreased from 4.1 to 2.6. In 1993 Uzbekistan had 475.5 thousand families with 7 and more children, i.e. nearly 20% of families were families with many children. The prevailing trend appeared recently is a reduction of a share of large families and family size to 3-4 children in urban areas and 4-5 – in rural areas.

The natural increase of population decreased from 28.3 ppm in 1991 by 11.8 points in 2010, i.e. the natural growth of population reduced by over 1.7 times. In 2011 the birth coefficient composed 21.4 %, comparing with the same period of 2010 it reduced by 1.0 %. However at present the reproduction of population in Uzbekistan is at so-called third stage of demographic transition which is characterized by relatively high birth rates and low mortality rates thanks to young structure of population.

Relatively high rates of the natural growth of population in Uzbekistan are provided by high demographic potential created in 1980-s, characterized by very high birth rates of the origin population. As a result during the recent five years (2007-2012) on average 180 thousand people have been entering the fertile age annually.

The average age in Uzbekistan is currently 25.7 years (male – 25.2 years, female – 26.3 years).



**Fig.6.7. Age structure in the Republic of Uzbekistan (% to the total number of population)**

In the upcoming future development of demographic situation in Uzbekistan will be determined by the following trends:

- stabilization of birth rates at the present level and slight increase in future;
- further reduction of migration outflow from the country;
- gradual increase of the absolute growth of population number;
- stabilization of urbanization level and gradual rise;
- further increase of life expectancy;
- permanent reduction of infant and maternal mortality rates.

The absolute increase of population in Uzbekistan will rise notably, mainly due to the growth of the total population number which in 2020 will probably reach nearly 33.0 million people, and in 2030 - over 38.0 million people<sup>1</sup>.

<sup>1</sup> O.B. Ata-Mirzaev. Features of demographic situation in Uzbekistan during the years of independence / Population of Uzbekistan: condition, problems and prospects. – T., 2012. – p.20.

#### 6.4. Gender factors of human development

Equality between women and men is one of important issues of human rights and one of the conditions for social fairness as well as the required and basic precondition to achieve equality, development and peace. Transformation of partnership relations on the basis of equality between men and women is one of the conditions to achieve sustainable development prioritizing interests of a human.

At the international level equality between men and women was fixed by the Charter of the United Nations in 1945 and the Universal Declaration of Human Rights in 1948. However, the evolution of gender equality strategies and approaches is a long process.

In 1950-1960-s female development problems were included into the range of the human rights problems. Then a number of documents appeared focusing on protection of female rights: Equal Remuneration Convention (1951), Convention on the Political Rights of Women (1952) and Convention on Discrimination (Employment and Occupation) (1958).

The first international conference on women in 1975 stated the Decade for Women.

UN Decade for Women (1976–1985) became a global start-up to study the condition and rights of women and involvement of women into decision-taking at all levels. In 1979 the UN General Assembly adopted the Convention to Eliminate all Forms of Discrimination against Women, entered into force in 1981 and set the international standard for what is considered as equality between women and men.

In 1985 the World conference to review and appraise achievements of the UN Decade for Women under the motto “Equality, development and peace” adopted Nairobi Forward-looking Strategies for the Advancement of Women to be realized by 2000.

On December 15, 1995 in Beijing the Fourth World Conference on Women adopted a Platform for Action aimed at speeding up the realization of Nairobi Forward-looking Strategies for the Advancement of Women. Beijing platform provides elimination of obstacles on the way to active involvement of women into

all spheres of social and private life through facilitating comprehensive and equal participation of women in decision-taking on economic, social, cultural and political issues.

The Platform once again confirmed the main principle formulated by Vienna Declaration and Action Plan adopted during the World Conference on Human Rights, in particular that the rights of women and girls are inalienable, constituent and indivisible part of the general human rights.

With these aims the national government, international community and civil society are strongly recommended to adopt strategic measures to advance women.

Up to now many countries have adopted legal acts to facilitate equality between women and men, have created the national mechanisms aimed at ensuring proper consideration of gender issues in all social spheres. The international institutions started to pay more attention to women and their roles.

MDG 3 “Promote Gender Equality and Empower Women” also provides encouragement of equality between men and women and expansion of women rights and opportunities. MDG 3 defines “Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015”.

The following indexes are used for monitoring of the progress in achievement of the objective in the global level:

- proportion of girls and boys in the system of primary, secondary and higher education;
- share of women in non-agricultural sector;
- share of places occupied by women in the national parliament.

Unfortunately, at this stage of human development there is not country providing full equality between men and women in all spheres of life. However *inequality* is noted more often in less developed countries and the poorest families, it has social, psychological and economic consequences for people, organizations and society as a whole. Most frequently inequality takes place in education,

number of work hours, income, life expectancy, power and representativeness. In particular:

- women compose over 50.0 % of population but have only 1/100 of the world property;
- they fulfill 2/3 of the world work but gain only 1/10 of the world profit;
- most, over 60.0 %, illiterate and unemployed are girls and women;
- each third woman in the world was a victim of violence, very often done by her partner;
- less than twenty women govern their nations and only 20.0 % of all parliaments are composed of women;
- women fulfill most of domestic, reproductive, unpaid labor;
- women dominate in less paid sectors of healthcare and education, while men concentrate in higher paid transport sector, communication and IT technologies.

General economic recession as well as political instability in some regions forced many countries to step away from the development goals set. This resulted in growth of extreme poverty rates. Over 1 billion people live in extreme poverty and women are the absolute majority. Rapid changes and transformations in all sectors cause also increase of unemployment and partial employment, this process also relates specifically to women.

Frequently women do not have other choice but to go to work that does not give long-term guarantees of employment or related to dangerous conditions of labor, work under unprotected conditions of home-based production or remain unemployed. By entering the labor market many women get low-paid and not prestigious jobs striving to increase their households' incomes; other decide to migrate with the same aim. Given that the other women's duties remain, the total work load carried out by women increased.

Being locked in the traditional frameworks assigned for men and women in the social and private life, society closes the way to possible solutions of the



problems it faces. Economic and social growth can be achieved only through maximum use of resources and creative energy of men and women.

*Gender* (eng. «gender», Latin “genus” – “kind”) is a social sex defining human behavior in society and how this behavior is perceived. Sex is a biological category in which differences are predetermined, universal and unchangeable, while gender is a social category established by society being transformed in the course of time and from one society to another.

The term “gender” was first used as a social category by psychoanalyst R. Stoller in 1968 in his book “Sex and gender”. A.A. Giddens explained that the term “gender” refers not to the physical differences between men and women but build by the society specific characteristics of manhood and womanhood<sup>1</sup>.

**Table 6.1**

**Differences between terms “sex” and “gender”<sup>2</sup>**

Sex	Gender
Biological	Social
Anatomic and physiological differences which determine people as men and women.	Provides identification, interactions and institutions established specifically for men and women: <ul style="list-style-type: none"> <li>• by identifying ourselves with other men and women we from our behavior;</li> <li>• society constructs gender differences in social institutions (family, school, organization);</li> <li>• interactions of women and men differ, for instance in terms of love men are expected to be initiative, while women – passive.</li> </ul>
Characteristics are given by nature, they are constant and nontransferable.	Characteristics are given by society, change in the course of time and depend on geographic factors.

Boys and girls from the birth learn to accept and follow various traditional gender roles and approved by the society behavior standards (socialization process). Depending on sex each human plays his/her gender role, has rights and duties related to all aspects of life whether it is a man or a woman. Gender role determines the needs and interests of people, their access to resources, power and

<sup>1</sup> A. Giddens, *Sociology: a Brief but Critical Introduction* – London, Macmillan, 1982.

<sup>2</sup> M.S. Kimmel, *Gendered Society*, Oxford University, 2000.

various opportunities. Sometimes gender roles make impact on equality issues and cause discrimination and violation of rights.

*Gender equality* means equal rights, responsibilities, opportunities, value and results for women and men, girls and boys. Gender equality is not exclusively a "female" issue, it relates to both men and women since society expects compliance with gender "norms" and "standards" from both sexes (gender stereotypes). Equality does not mean that women and men become the same, however their rights, responsibilities and equality will not depend on whether they were born boys or girls. Gender equality means that the interests, needs and priorities of both men and women are considered, including variance within groups of men and women.

There are two complementary methods to achieve gender equality: gender mainstreaming (or introduction of gender issues into all aspects and areas) and special interventions to empower women.

*Gender mainstreaming* means "process of assessment of consequences for men and women caused by any planned measures including legislation, policies and programs in all areas and all levels". It is a single comprehensive strategy that integrates gender issues into activities of all organizations (and ministries) carrying out their performance by all program areas and sectors (for instance, trade, healthcare, education, transport, etc.). Gender equality is not considered as a "separate issue", it becomes an integral part of any strategy and program. Both sexes, men and women, are considered as participants and users of the development outputs. Gender approach considers that women and men, girls and boys can have different needs and priorities, hence the results of the suggested programs and projects can be different and make different impacts on these groups.

In the areas with huge gaps and disparities together with gender mainstreaming there is a need in target, special interventions, measures and projects aimed at women or men. They may include projects and programs on improvement of mal health or prevention of home abuse against women.

Implementation of MDG No.3 facilitated leveling of gender inequality in education. In the recent years the global enrollment of girls with primary and secondary education has increased substantially. However, the 2005 targets were not achieved.

Extreme poverty is a key reason for unequal access to education, especially for girls at the middle school age. Secondary education is of specific importance for provision of the rights and opportunities of women, but girls from the poorest families have twice as little chances to get is as their peers from families with higher income.

Despite the achievements made men still prevail on paid jobs, women still have unsafe and unstable jobs. The proportion of women with paid Non-agricultural jobs is growing, and in 2008 reached the global rate of 41.0 %.

Even if women have paid job, they are usually paid less than men and provided with less financial and social guarantees. Women more often than men have unstable and unsafe jobs with lower wages, low productivity, where work conditions do not meet the requirements of any standards.

In the global scale only one fourth of top and middle managers are women. Little by little women gain the political power, however this happens due to provision of quotas and other special measures. From 1995 till 2010 representation of women in the parliaments all across the world increased from 11.0 to 19.0 %, which is 73% increase, however it is still far from gender equality. In 58 countries women still compose less than 10.0 % of deputies.

Increase of women representation in executive power is even lower. In 2010 only nine of 151 of the elected presidents and 11 of 192 head of the governments were represented by women. In the global scale women occupy only 16.0 % of minister positions<sup>1</sup>

Uzbekistan supports gender equality issues. The Article 18 of the Constitution of the Republic of Uzbekistan states, that: *“All citizens of the*

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<sup>1</sup> Report on achievement of MDGs formulated in the Millennium Declaration, 2010 / UN MDG data base // mdgs.un.org

*Republic of Uzbekistan have equal rights and freedoms and equal against the law without any differences by sex, race, nationality, language, religion, social origin, beliefs and social status".* The Article 46 of the Principle Law of the country provides directly, that *"Women and men have equal rights"*.

The Republic of Uzbekistan like the most countries of the global community made a range of commitments in the area of gender equality. The country signed a number of international legal documents to protect rights and interests of women, including the Convention of the United Nations on Elimination of all Discriminations against Women, Convention on the Political Rights of Women, Convention on protection of maternity, Beijing Platform and Action Plan, adopted during the IV World Conference on Women, which laid the international legal background for formulation of the national measures to implement the international standards to be integrated into the legal framework and practice of the national authorities.

Uzbekistan adopted over hundred legal documents on protection of women rights. The national government adopted a number of the national programs including the National Platform of Actions outlining the strategy and priority areas for advancement of women in Uzbekistan. Based on the Decree of the President of the Republic of Uzbekistan "On supplementary measure to support Uzbekistan Committee of Women" respective program was formulated aimed at improvement of economic status of women due to creation of new jobs for them and encouragement of business activities. This program also provides measures to expand women participation in political and public activities.

Amendments were introduced to the effective legislation of Uzbekistan aimed at encouragement of women participation in political activities. In line with the new quota system political parties must nominate at least 30.0% of women from the total number of candidates to the legislative and representative authorities.

**Table 6.2**

**Proportion of women and men participating in decision-making  
(% of the total)**

Government bodies	Globally		In Uzbekistan	
	Women	Men	Women	Men
Parliaments	19.2	80.8	22.0	78.0
Executive power	1.0	99.0	6.2	93.8

Women compose 48.0% of the employed population. The number of women employed in economy increases annually by average 150-160 thousand people. Such an accelerated growth of female employment is linked with the structural transformation in economy. For the years of independence in the country labor intensive sectors have developed that use predominantly woman labor force. To some extent this facilitated increased demand for woman labor force. Services in Uzbekistan have been developing rapidly. Implementation of the National Service Development programs supported increased demand for woman labor force. Estimates demonstrate that in 2000 – 2012 53.0% of the total employment increase was provided by women.

Level and sectoral structure of woman employment are important socio-economic indicators reflecting the level of the society development, its members' life quality. In Uzbekistan the level of female economic activity is rather high.

**Table 6.3**

**Gender structure on the labor market in Uzbekistan  
(in % to the total number of the employed)**

Economic sectors	Employed women	Employed men
Industry	42.0	58.0
Forestry and agriculture	51.1	48.9
Construction	12.8	87.2
Transport and communication	17.3	82.7
Trade	53.7	46.3
Healthcare, sport, social protection	78.3	21.7
Education, culture, science	68.7	31.3
Finance, credit, insurance	45.5	54.5

In developed countries women are represented on the labor market much lesser than men, which is partially connected with a voluntary decision of women to stay at home.

In Uzbekistan the gap between economic activities of men and women is insignificant, which is to a certain extent preconditioned by relatively low family incomes. Accordingly, this situation is the most substantial factor making women participate in public production. The findings of sociological surveys conducted by both national and international experts prove the thesis that most women in Uzbekistan work because their incomes serve as significant contribution to the family budget.

Despite relatively high education level, women are less competitive on the labor market. The most evident proof is a current representation of women on the labor market, almost half of them are searching jobs and over 60.0 % are the registered unemployed.

Given this situation a strategy should be formulated to restrain the growth of the number of unemployed women, facilitate creation of new jobs in labor intensive sectors including but not limited to high readiness textile production, processing of fruit-and-vegetable products, substantial increase of women competitiveness on the labor market, expansion of application of various forms of employment, small business and private entrepreneurship, family business and self-employment.

Uzbekistan Committee of Women is a main structure responsible for formulation and implementation of the government policy aimed at solution of women problems in the country. The Head of the Committee of Women is simultaneously the Deputy Prime Minister. To ensure the nation-wide balance in decision-making with participation of women the heads of the regional and Tashkent city Committees of Women are assigned simultaneously heads of regional and Tashkent city Khokims, they are responsible for promotion of women interests, realization of their potential at the local level.

UN Committee for Elimination of all Forms of Discrimination against Women formulates recommendations to Uzbekistan Country Report on implementation of the Convention on Elimination of all Forms of Discriminations against Women. As the next step the Government of Uzbekistan adopted the National action plan and established a working group for coordination and monitoring. The Government of Uzbekistan also supported a number of activities to increase awareness of women on their rights in advancement in the society.

### **6.5. Influence of environment on stable human development**

Initially the concept “*development*” was considered as a means of improvement of economic indexes, for instance the Gross National Product. However today the international community admits close interrelations between economic development, environment and protection of human health.

The report of the UN International Commission on environment and development “Our Common Future” states that “Economy is not limited by creation of material values, while ecology relates not only to nature protection; both of these notions equally relate to improvement of humankind fortune”.

Environment performs a number of important functions related to human. First of all, it is a basis and source of people lives. Interrelation and interdependence of phenomena and processes in nature provides conditions required for physical life of a human on the Earth.

The key vital human needs besides need in water and food, clothes and housing often include need in recreation and satisfaction from dealing with nature. The ability of environment to satisfy these needs is summarized in the notion “quality of environment”.

The 20-th century with its enormous development of productive forces has become a critical benchmark after which human development started to depend on the character of relations between nature and society. The global economic problems appeared, each of them is challenging existence of civilization. Those problems include the following:

- pollution of environment;
- growing deficit and pollution of water resources;
- desertification;
- land degradation, reduction of the area of agricultural land;
- reduction of forest area;
- growing level of the World Ocean;
- reduction of the area of the natural ecosystems;
- extinction of biological species, etc..

The consequences of environment degradation trends on the planet include the following:

- deterioration of the life quality;
- growing diseases caused by environment pollution;
- new diseases;
- aggravation of the world food problems;
- aggravation of social and economic inequality problem;
- exacerbation of conflicts in fight for resources and energy sources, etc.

Unprecedented progress has been achieved for the recent 50 years in improvement of material provision of substantial part of population. However the problems of chronic poverty and low development aggravated by collateral consequences of sharp economic growth in some countries create enormous load on human and natural resources of the planet. For instance, water consumption for the recent 50 years has almost tripled, while the volume of water per capita has reduced sharply from 16.8 thousand cubic meters to 7.3 thousand cubic meters. Nearly 30.0 % of population in developing countries (over 1.3 billion people) have no access to safe drinking water. Over 90.0 % of drain water in those countries is discharged to open water reservoirs without treatment. As a result, 5 million people die there because of diarrhea.

The Global Report – 2011 “Sustainable development and equal opportunities: better future for all” emphasizes that “ during the upcoming decades negative environment factors may cause growth of the world prices for food by



30.0-50.0% in real figures and increase prices which will aggravate the status of the poorest households sharply". The highest risks will affect 1.3 billion people employed in agricultural sector, fishing, forestry, hunting. The burden of environment degradation and climate change will spread among various groups of population unevenly due to the following reasons:

- income of many people in rural areas almost absolutely depends on the natural resources. Even those who usually do not participate in those types of activities may turn to them in tough times;

- effect of environmental degradation on people depends on whether they are pure producers or consumers of the natural resources, on whether they produce goods for own consumption or for market, and on the extent they are ready to change their occupations and diversify livelihoods based on other types of activities;

- Today nearly 350.0 million people, most of them are classified as the poor, live in forests or around them, and depend on forests in terms of food and income. Both deforestation and limited accessibility of the natural resources affects the poor. The evidences from a range of countries demonstrate that usually women depend on forest to higher extent than men. They have fewer freedoms in the selection of occupation, they are less mobile and bear more responsibilities for collection of firewood;

- nearly 45.0 million people – at least 6.0 million of them women – are occupied with fishing which is the main source for livelihoods and are threatened by the excessive catch of fish and climate change. Their vulnerability is of two kinds: the countries in the most dangerous condition are the most dependent on fish as a source of food protein, source of livelihoods and export item. It is expected that climate change will result in reduction of fish reserves of the Pacific Ocean islands, while situation in the northern latitudes will become more favorable.

Data of the World Health Organization demonstrate that environmental factors including dirty water, inadequate sewage and hygiene are in the top 10 reasons for diseases in the world. Each year, the diseases linked with environment,

including respiratory infections and diarrhea, kill at least 3.0 million children under 5, which exceed the total number of children of that age living in Austria, Belgium, the Netherlands, Portugal and Switzerland taken together.

These problems are the most evident in rural areas, where 29.0 % of citizens have no access to clean water, 62.0 % have no sanitary conditions.

Content of nitrates and other chemical toxins in products grows faster than increase of yields. The threat of natural disasters and catastrophes grows, and unfortunately becomes true, being cause by anthropogenic factors and negative human behavior in their environment.

These trends aggravate environment sharply because the direct connection is obvious between the growth of population and increased anthropogenic load on nature.

These preconditioned integration of environment sustainability into the Millennium Development Goals.

*Environment protection* is a system of measures aimed at provision of favorable and safe habitat and vital activities. The most important environmental factors include atmospheric air, air in apartments, water, soil. Environment protection provides conservation and recovery of the natural resources to prevent direct and indirect effects on nature and health caused by human activities.

Under conditions of scientific and technical progress and intensification of industrial production environment protection problems have become one of the most urgent national objectives linked inseparably with health protection. For many years degradation of environment had been reversible, i.e. covered limited areas, separate districts and had not been of global significance that is why effective measures for protection of human habitat had hardly been taken. During the last 20-30 years irreversible changes in the natural environment and dangerous phenomena have appeared in various areas of the Earth. Massive pollution of environment the issues of environment protection moved from the regional and national objectives to the international and global challenge. All developed

countries defined environment protection as one of the most significant aspects of a human fight for survival.

Developed countries elaborated a range of the key organizational and scientific-technical measures for environment protection. They provide the following:

- definition and assessment of the key chemical, physical and biological factors affecting negatively the health and ability to work to formulate strategies aimed at reduction of the negative role played by these factors;
- assessment of potential impact of toxic substances polluting environment to set the required risk criteria in terms of population health;
- formulation of effective programs to prevent possible production emergencies and measures to reduce negative consequences of emergency emissions on environment.

Setting the risk scale is especially important for environment protection in terms of effects of pollution on the gene pool, in particular carcinogenicity of separate toxic substances in industrial wastes and emissions. Regular epidemiological surveys are required to assess the risk of mass diseases caused by pathogens from environment.

For solution of the environmental problems, one should take into account that a human is affected by a variety of factors from the very birth and in the course of his life (domestic and industrial chemicals, medicines, chemical supplements from foodstuff, etc.). Additional effects of hazardous substances appeared in environment through industrial wastes can make negative impact on population health.

The most effective environment protection measure from those substances is formulation and introduction of waste-free or low-waste technological cycles, as well as waste treatment and recirculation. Another important measure for environment protection is a revision of approaches to the principle of production placement, replacement of hazardous and stable substances by less hazardous and stable.

Interrelation of various industrial and agricultural facilities is becoming more and more substantial, social and economic damage caused by accidents because of close placement of different production facilities may exceed the benefits related to close availability of resource base or transport infrastructure. To solve the objective of optimal placement various specialists should work together to forecast negative consequences of a large variety of factors, apply mathematical modeling methods. Very often the territories remote from the direct source of hazardous emissions are polluted due to meteorological conditions.

Since the late 1970-s many countries have started to launch environment protection centers integrating the world best practices, studying the role of previously unknown factors affecting environment and health of population.

The key reason why the global environment keeps degrading is irrational structures of consumption and production, especially in industrially developed countries, which is a deep concern and results in aggravation of extreme poverty and existing gaps.

Despite a certain progress in achievement of MDG No.7, the goal on biodiversity conservation has not been achieved by 2010. Based on the current trends one can suggest the biodiversity losses will remain during the whole 21-st century. Despite growing investments to fight against the main reasons for biodiversity losses including but not limited to high consumption, loss of habitat, environment pollution and climate change, they are still not enough. Biodiversity is vitally important; provision of daily needs and often the very survival of billions of people depend directly on availability of various plants and animals.

The speed of deforestation has become slower, however still the highest pace of deforestation still remains in biologically varying regions of the world. Tree planting programs in combination with the natural expansion of afforestation in some regions add over 7 million hectares of new forests annually. As a result, pure losses of forests in 2000-2010 were decreased to 5.2 million hectares per annum, comparing with annual losses of 8.3 million hectares in 1990-2000.

Excessive fish catch threatens to extinguish the most important for billions of people source of protein. Increased volumes of large-scale industrial fishery as well as improper regulation of access to fish resources aggravate this problem.

Montreal Protocol adopted in 1987 provided gradual refusal of 98.0% of ozone depleting substances by 2008. Many ozone depleting substances noted in Montreal Protocol are also strong green-house gases entailing the global climate change. In 2007 almost all national governments made commitments to reject HCFC which are currently the most used ozone depleting substances.

I.A. Karimov, the President of the Republic of Uzbekistan, during his speech on the plenary session of the UN MDG Summit emphasized that: *"Nature protection and environment conservation become of enormous significance for achievement of the goals set by the Millennium Declaration especially given contemporary abnormal natural changes"*<sup>1</sup>.

During the first years of independence, in 1992, Uzbekistan adopted the Law "On Nature Protection". The Law provides the following nature protection objectives:

- creation of an enabling environment for population health, preservation of environmental balance, rational, inexhaustible use of natural resources for effective and sustainable socio-economic development of the country;
- conservation of the species variety and gene pool of the nature; conservation of variety of ecological systems, landscapes and unique natural objects;
- provision of environmental security;
- conservation of the cultural heritage related to the natural objects.

In addition over 35 laws directly or indirectly covering environment protection issues and 55 bylaws compose the environment protection legal framework.

Regulation of environment protection is performed by the State Committee on Nature Protection of the Republic of Uzbekistan.

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<sup>1</sup> Narodnoe slovo, September 22, 2010.

The main objectives of the State Committee on Nature Protection of the Republic of Uzbekistan include the following:

- public control for nature protection, use and reproduction of the natural resources;
- intersectoral comprehensive management of nature protection activities;
- formulation and implementation of a single nature protection and resource saving policy;
- ensuring favorable ecological condition of environment, improvement of ecological situation.

Uzbekistan formulated and implemented important organizational, socio-economic, legal measures to ensure environmental security. The adopted measures allowed reduction of air pollution, improvement of the main water course operation, reduction of pesticides, improvement of arable land structure, attraction of international organizations to solution of environmental problems.

Under conditions of dynamic changes of market relations, reforming the tax policy, increased role of resource and property taxes in the total budget receipts aimed at effective and rational use of the natural, materials-technical resources, specific role is played by gradual introduction and improvement of economic mechanisms in the nature management.

In accordance with the gradual Program of transition of Uzbekistan economy to paid nature management and concept "Introduction of scientifically based economic and legal mechanisms for nature management in the Republic of Uzbekistan" a system of payments was introduced for pollution of environment. It should be noted, that the concentration of financial resource in nature protection funds provided opportunity to start financing of nature protection activities, urgent scientific studies and surveys, executing works to formulation of advanced standard-methodological documents in the area of nature protection and nature management.

By promoting international cooperation in the area of environment protection Uzbekistan ratified 9 environment protection conventions and respective

Development Protocols, signed 12 international agreements on environment-related cooperation, including Convention on Biological Diversity, Vienna Convention for the Protection of Ozone Layer, UN Framework Convention on Climate Change, Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal, The Convention on Wetlands of International Importance, especially as Waterfowl Habitat - Ramsar Convention, etc. Accession and ratification of the international legal documents in the area of environment protection and development is an important element of execution of commitments given to the international community by Uzbekistan.

The State Committee on Nature Protection of the Republic of Uzbekistan coordinates execution of a number of international projects in the country. In particular, under the State Committee on Nature Protection of the Republic of Uzbekistan offices of international projects were established and operate, including "Conservation of Ozone Layer", "Conservation of Biodiversity of the Western Tian Shan", "Empowerment of Environment Protection Authorities", "Environment Program of the Republic of Uzbekistan".

Environment problems are highly sensitive for Uzbekistan. In particular, because of irresponsible attitude to environmental challenges one of the unique and beautiful seas, the Aral Sea, for just one generation turned into a drying and disappearing water body. For forty years the area of the Aral Sea surface decreased by over 7 times, water volume decreased by 13 times, mineralization increased by over dozens of times, having made the sea unsuitable for habitation of living organisms which caused full degradation and extinction of almost all species of flora and fauna.

At present the Aral Sea region faces a complex of problems, not only ecological but also socio-economic and demographic problems. The continuing drying of the Aral Sea and humanitarian catastrophe around it the most urgent objective now is to preserve the natural biological stock of the Aral Sea region, decrease destructive impacts of the Aral crisis on environment and, which is more

important, on the lives of the hundreds of thousands and millions of people living here.

There is a need to consider that the Aral Sea region is supplied with water from two main rivers, Amudarya and Syrdarya, any reduction of inflow causes significant damage of fragile ecological balance across the whole region. Under these conditions any attempt to implement projects on construction of up-stream large-scale hydraulic facilities with giant dams (given that seismicity of the potential construction zone is 8-9 points) may cause fatal environmental damage and dangerous anthropogenic catastrophes.

The first Human Development Report emphasized that safe environment, *"clean water, foodstuff and air", is an element of human freedom.* The Global Report 2007 used the tools of the human development concept to demonstrate the losses caused by climate change, including the traps of inter-generation poverty caused by climate shocks. It justified the consequences of the temperature growth worldwide reflected in melting of arctic ice, change of the local precipitation models, rise of the sea level and forced adaptation of the most vulnerable groups of population on the Earth. All across the world people consider global warming as a serious threat to their welfare. It is now widely accepted that the planet had faced one of the greatest challenges in the history, threat of anthropogenic climate change with potentially catastrophic consequences.

Increased vulnerability caused by such shocks as global warming, droughts, floods and environment catastrophes is a considerable obstacle for implementation of the UN MDGs. Therefore, the world community, national governments, all people on the planet should be more adherent to environment protection to resist the most serious challenge the world has ever faced.

#### **6.6. Ownership of an apartment is a criterion of living standard and quality of life**

Starting from the adoption of the Universal Declaration of Human Rights in 1948 the right to proper housing has been accepted as an important component of the right for adequate living standards. The Article 25 of the Universal Declaration



on Human Rights emphasizes that *“Each human has the right to the living standards including... housing... which is required to maintain health and welfare of himself and members of his family”*.

Therefore, one of the objectives outlined by MDGs is *“achieve, by 2020, a significant improvement in the lives of at least 100 million slum dwellers as provided by the initiative “Cities without slums”*”.

As it is known from the famous Maslow's hierarchy of needs<sup>1</sup> housing together with food and other physiological needs occupy the prevailing position.

The objective of MDG on improvement of welfare of at least 100 million slum dwellers had been exceeded almost two-fold by 2010. For the last 10 years over 200 million slum dwellers gained access to improved water supply, improved sanitation facilities or durable or less crowded housing, which substantially increased their chances to escape from extreme poverty, diseases and illiteracy.

Despite the share of urban population living in slums had declined from 39.0 % to 33.0 %, the number of slum dwellers in developing countries in absolute figures is growing and by forecasts will keep on growing in the nearest future.

The world community makes attempts aimed at support to solving housing problems. Based on the outputs of the Conference in Vancouver (Canada) in December 1977 the UN General Assembly adopted a resolution to establish Commission on Human Settlements. The key objective of the Commission is support to development of international cooperation in the area of settlements, civil and residential construction and construction materials. In October 1978 the Secretariat and Executive Body of the UN Commission on Human Settlements (UN Center for Human Settlements - HABITAT).

The Second Conference on Human Settlements (HABITAT II) was conducted in 1966 in Istanbul (Turkey), and adopted the baseline HABITAT documents: the first one is “HABITAT Agenda”, so-called world Action plan for sustainable development of settlements; the second one is “Istanbul Declaration” in

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<sup>1</sup>Abraham Maslow (eng. Abraham Maslow, 1908-1970) is a prominent American psychologist, founder of humanistic psychology, author of the theory of hierarchy of human needs.

which the heads of the states and national government took commitments to ensure safety, viability, productivity and sustainable development of settlements for all people on the planet.

The 25-th special session of the UN General Assembly took place in June 2001 in New York City, dedicated to assessment of implementation of HABITAT Agenda. During the session UN member countries adopted the “Declaration on Cities and Other Human Settlements in New Millennium” that outlined the principles and objectives of sustainable development of cities and other settlements.

On December 12, 2001 the 56-th UN General Assembly adopted a resolution on raising the status of the UN Center for Human Settlements (HABITAT) to the complete Program of the United Nations on Human Settlements (UN-HABITAT).

UN-HABITAT carries out a global campaign to secure the guarantees on possession of housing. This campaign aims at support to the national government in realizing commitments to provide “proper housing for all”, one of the key points of HABITAT Agenda. It defines secure of the legal guarantees for housing as the most important factor of sustainable housing strategy and essential for support the right to housing. The campaign intends to promote the housing strategy supporting the rights and interests of poor population by admitting that in overwhelming majority of cases poor urban people arrange housing themselves. It also facilitates the rights and roles of women in successful housing policy.

The Program on Human Settlements provides support and operates in cooperation with the governments, local authorities, NGOs and private sector. The technical programs and projects focus on solution of a wide range of problems, including reconstruction of slums, poverty reduction in cities, liquidation of consequences of the natural disasters and reconstruction, provision of urban water supply and sewage system, mobilization of the local financial resources to provide population with housing. Most of those programs are implemented in cooperation with other bilateral development agencies.

UN-HABITAT Programs include:

- program to exchange the advanced experience and local governance practices, a global network of the government agencies, local authorities and civil society institutions aimed at identification and distribution of the best practices to improve the living conditions and capacity building;

- sustainable urban development program is a joint initiative by UN-HABITAT and UNEP to create potential for urban environmental planning and management through expanding participatory approach;

- the project on water supply in the cities of Africa is an initiative of UN-HABITAT and UNEP providing support to effective management and protection of water resources from urban pollution;

- the program on natural disasters supporting the national governments and local authorities as well as communities in implementing programs for reconstruction and liquidation of consequences of the natural disasters.

- “Program for localization of Agenda 21” that implements the Agenda 21<sup>1</sup> at the local level by encouraging synergies in separate medium cities.

Proper housing means not only a roof over one’s head. This provides also the following:

- housing conditions securing non-interference into private life;
- proper living space; physical accessibility;
- proper security; guarantees for housing safeguards;
- stability and reliability of available structures;
- proper lighting, heating and ventilation;
- proper basic infrastructure such as water supply, sanitation, waste disposal;
- proper quality of environment and factors affecting health; proper and accessible location of housing against job and service facilities.

These should be accessible by adequate prices. Proper housing should be defined by interested persons bearing in mind gradual development. Maintenance of proper condition of housing often varies by countries being dependent on specific cultural, social, environmental and economic factors. In this regard, gender

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<sup>1</sup> Agenda 21 is a global action plan for sustainable development adopted in 1992 during the Earth Summit.

and age factors should be noted such as liability of children and women to toxic substances.

All national governments in the world took commitments to provide housing, the practical implementation of which is establishment of a ministry or other agencies responsible for residential construction, provision of funds for housing sector, implementation of housing policies, programs and projects.

Provision of proper housing for all requires actions not only from governments but from other sectors of society including private sector, nongovernment organizations, communities and local authorities as well as partner organization and international community. Within the framework of a common context of encouraging approaches the governments should undertake respective actions to encourage and guarantee full and consistent realization of the right to proper housing. The list of such actions although far from being full includes the following:

- housing laws should prohibit any form of discrimination and guarantee equal and effective protection for all from discrimination by any form, such as race, skin color, sex, religion, political or other views, ethnic or social origin, property status, place of birth or any other status;

- Legal guarantees against unreasonable ouster and equal access to land for all including women and people living in poverty, as well as effective protection from forced ouster in line with the human rights and that homeless must not be punished for their status;

- adoption of policies aimed at making housing suitable for living, accessible by price and comfortable, including for those who cannot afford own proper housing, through the following:

- expanded offer of affordable housing through taking respective regulation measures and introduction of market incentives;

- increasing affordability of housing through subsidies, aid for rent of residential premises, other forms of support to obtain housing for people living in poverty;

- supporting community-based housing programs, cooperative and non-commercial housing rent and possession;
- supporting the homeless and other vulnerable groups;
- mobilization of innovative financial and other resources, both public and private, for development of community and residential construction;
- elaboration and encouraging market incentives facilitating the private sector to search the ways for satisfaction of needs in affordable housing through rent or private possession;
- support to sustainable development of available space and transport system to facilitate access to goods, services and jobs;
- effective monitoring and assessment of housing conditions including scaling the problems of the homeless and unsatisfactory housing, as well as participatory approach to formulation and adoption of proper housing policy and implementation of effective strategies and plans to solve the aforementioned problems.

Formulation, regular assessment and revision upon necessity an encouraging housing policy to create effective and efficient residential construction systems is a milestone in provision of proper housing for all. The baseline principle of formulation of realistic housing policy is its close interrelation with the general macroeconomic policy, environment protection policy and social development policy.

Although housing policy focus mainly on establishment of the required framework to satisfy the growing demand for housing and infrastructure, considerable attention of people should be paid to more active use of the available housing stock and various options to rent and transfer for possession to satisfy different needs of population. The policy should also encourage and support the people, acting individually or in groups, in many countries, especially developing ones, become producers of housing.

Uzbekistan undertakes large-scale measures to improve housing conditions for population, especially in rural areas of the country. The legal, legislative and

normative basis of residential housing was changed fundamentally. Based on the principle of integrity of private property guaranteed by the Constitution of the Republic of Uzbekistan, the Housing and Urban Construction Codes of the Republic of Uzbekistan and the Law of the Republic of Uzbekistan " On Mortgage" and other legal and normative acts provide the right of the owner to unlimited in time possession and inheritance of a house with a land plot on which it is built.

The Decree of the President of the Republic of Uzbekistan "On Supplementary Measures to Expand Construction of Housing in Rural Area" was adopted on August 3, 2009. The document provides measures aimed at principle improvement of housing conditions for rural population based on expanding the scale of individual housing construction by approved typical design in line with the master plans and designs.

A specialized engineering company "Kishlok Kurilish Invest" was established for implementation of this program with branches in each region of the country to support individual developers for typical housing construction. The engineering company is assigned with a set of functions including marketing survey of the housing market and respective proposals for selection of construction sites, composition and structure of housing to be constructed as well as social and engineering infrastructure. The company also provides contractual services of a customer for construction of new individual housing on a turn-key basis as well as for social and engineering infrastructure facilities in rural settlements including funding and technical inspection over construction.

Construction of production infrastructure in housing area is fulfilled at the cost of investors and credits of commercial banks; construction of social infrastructure facilities and external engineering networks is funded by the local budgets and sponsors.

The specialists of "Kishlokkurilishloyiha" design institution designed over two dozens of typical improved rural houses with conveniences for various climate

zones, for construction of which advanced technologies and construction materials are used.

Credit funding of individual housing construction by typical designs is provided by a specially established joint-stock commercial bank “Kishlok Kurilish Bank”. For 4 years passed since establishment the bank has provided 23.6 thousand mortgages totaling over USD 677 million in equivalent.

Competent international financial institutions and organizations also participate in implementation of programs on individual rural housing construction including but not limited to Asian Development Bank, Islamic Development Bank, World Bank, etc. For instance, the ADB Board of Directors improved a program to finance the project “Development of Rural Housing Construction in Uzbekistan” totaling USD 500 million.

A rural dweller after selection of a typical design makes a contribution to the bank as an initial installment of at the rate of 25.0 % of the total cost of the selected house. He is provided with a privilege mortgage under beneficial conditions, i.e. payment term is 15 years with a one year delay in payback, privilege interest rate of 7.0 %, which is much lower than the refinancing interest rate of the Central Bank. The developers of rural housing construction implemented through credits of “Kishlok Kurilish Bank” are exempted from income taxes submitted for payback of mortgage and calculated interests. Moreover, they are exempted from property tax for the purchase house until full payback of the mortgage.

Rural citizens obtain free land plots for construction of individual housing as a life tenure estimated as 0.06 hectare per family. In line with the approved normative acts construction of residential blocks in rural areas is fulfilled based on elaborated and approved typical designs approved by developers simultaneously with engineering and communication, social and market infrastructure facilities. The obligatory condition is laying motor roads, internal communication networks, including water-, gas-, and power supply at the cost of the national and local budgets.

Based on the number of population that intends to live in new residential blocks, schools, kindergartens, rural medical facilities, trade and sports facilities by typical designs are constructed.

Starting from 2009 based on typical designs over 900 new residential blocks have been built in 159 rural areas, over 33.5 thousand individual houses have been built with a total area of 4.5 million square meters. 732 kilometers of asphalt roads and over 1 million of social and market infrastructure facilities have been built. In 2014 in 388 more residential blocks 11 thousand typical houses will be built totaling 1.5 million square meters.

As a whole until 2015 it is intended to allocate funds equivalent to USD 2.2 billion for implementation of the approved Program of Development of Rural Housing Construction.

Housing construction and affiliated infrastructure, i.e. public utilities and social sector, transport and communication networks, production of advanced construction materials and structures are the most perceptive and effective areas for capital investments as well as solution of one of the most complicated and challenging social problems, i.e. employment of population. Fulfillment of rural housing construction in Uzbekistan facilitated establishment of over 900 new specialized construction organizations, over 60 enterprises producing advanced construction materials and structures. Upon increasing the volume of rural construction new jobs is created thus creating jobs for population, increasing incomes and welfare.

During the construction of residential complexes, together with engineering and communication infrastructure in rural areas new types of services and e-services are introduced. This provides jobs for thousands of young people who obtained advanced knowledge and professions in rural vocational colleges.

Construction of rural housing based on improved modern designs and comprehensive development of rural settlements is a long-term State program for high-quality development and improvement of housing conditions for rural population. New improved residential blocks provided with the required



engineering, transport and social infrastructure intend to facilitate fundamental changes in the look of the whole Uzbekistan.

Experience of Uzbekistan in rural development, improvement of housing conditions of rural population provoked outstanding interest of the international community. The bright evidence of which was the international conference in April 2013 in Tashkent covering issues of contemporary residential construction which gathered the heads and representative of UN, International Monetary Fund, World Bank, Asian Development Bank, Islamic Development Bank, ASEAN, UNESCO and other competent international organizations, over 300 scientists, specialists and experts from over 60 countries of the world.

### ***Control questions***

- 1. What is the link between education, health and living standards of population?*
- 2. Tell about the content and key areas of the strategy "Education for all".*
- 3. Explain the essence of the notion "National Model of Cadres Training".*
- 4. What is a demographic policy?*
- 5. What are the features of demographic situation in Uzbekistan?*
- 6. How environmental problems affect health of people?*
- 7. What is the purpose of "gender mainstreaming"?*
- 8. What do you know on UN-HABITAT programs and projects?*

## CHAPTER 7. SOCIAL PROTECTION OF POPULATION AND HUMAN DEVELOPMENT

### 7.1. Role of social protection system in human development

*Social protection* is a system of measures executed by the state and public structures to ensure guaranteed minimal sufficient living conditions to ensure vital functions and human activities.

The Article 25 of the Universal Declaration on Human Rights provides that: *“Each person has the right to the living standards including food, clothes, housing, medical treatment and required social services necessary to maintain health and welfare of himself and his family, and the right to provision in case the loss of livelihood caused by unemployment, disease, disability, widowhood, old age or other cases by the circumstances beyond his regulation”*. This is provided by the social protection system.

The social sector, issues of the life quality and living standards in any socio-economic system is an area where the state plays the leading role. This is linked with the fact that satisfaction of the social interests is not always implemented through personal material interests, profitability of private enterprises. Moreover, implementation of some human development programs is unprofitable and impossible without funding from social foundations, state budgets. Thereby, one should not fully rely on market mechanisms in ensuring social protection of population and expanding people’s choices. As noted by famous economist, Mahbub ul Haq *“deliberate public policy is required to focus economic growth on welfare of people”*. He considers that this requires land reforms, progressive tax system, pro-poor crediting, increase of social services for vulnerable population, elimination of obstacles to realize political and economic rights, etc.

The social role of the state under conditions of market relations should be built on the principally new basics.

Firstly, the social policy should be decentralized. The state is to focus on strategic issues of human development and delegate solution of everyday problems to local authorities.

Secondly, the state should realize that being all alone, without support of the society and population, it is unable to cover the whole range of social objectives. Non-government and non-for-profit organizations (NGOs), self-governance bodies and other civil society institutions should be involved to achieve the goals of human development.

Thirdly, implementation of the public social policy requires respective funds at the cost of GDP redistribution and centralization of financial resources. Inevitable in this case level of taxation in the real sector and availability of deductions to the budget and off-budget funds create tough financial burden, reduce profitability and, of course, competitiveness.

Establishing the system of social protection and strengthening its role in human development has its own history. In mid- 19-th century social rights were admitted as inalienable natural human rights together with civil rights. However, development of concepts on nature and content of social rights has been deriving in the process of evolution of society and the state during the last 3 centuries and modernization of the key political doctrines.

Starting from “Utopia” (1516) by Thomas More<sup>1</sup>, the notions of equality and justice are strictly linked with the state structure and become the objectives of the real reconstruction of the world. Thomas More entitled his study “*A Truly Golden Little Book No Less Beneficial than Entertaining on the Best Condition of a Republic and the New Island Utopia*”. The literary sources of “Utopia” are writings by Plato (“The Republic”, “Critias”, “Timaeus”), travel-novels of the 16-th century and political ballads. The response of society to the social injustice in terms of equality of opportunities is an equality of conditions, when the state bears the function of ensuring real equality on the way to achieve the goals set. The state legally sets equality of conditions, single cultural and educational criteria

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<sup>1</sup> **Thomas More** (Eng. *Sir Thomas More*, more known as *Saint Thomas More*, 1478-1535) is an English thinker and writer.

(standards) and takes responsibility for economic provision of equal conditions compensating unfavorable social status of separate categories of people.

The baseline for understanding the notion of justice is determination of two types, commutative and distributive.

*Commutative justice* is in formal equality of rights. It is based on the principle of reciprocity and the main idea is expressed by the ancient principle *lex talionis* (Latin “*the law of equal retribution*”) – “*to reward smb. according to his deserts*” or contemporary “*according to his works*”.

Commutative justice is implemented in the social policy through the mechanisms of individual insurance, when payment of allowances is considered as compensation of fees, provision of supplementary social goods for services, for instance, social support to veterans, etc. and labor remuneration in line with complexity and difficulty.

*Distributive justice* is of specific significance in the social policy, directly linked with the idea of equality. The most noted contemporary researcher in this area, J. Rawls<sup>1</sup>, when defining distributive justice, wrote that all social values: freedom and opportunities, income and fortune, self-respect, should be distributed evenly, except for the cases when unequal distribution of a separate or all those values is executed for the universal benefit.

Distributive justice aimed at ensuring real equality, first of all, economic, and suggests distribution of goods between the rich and the poor. At present distributive justice is often defined as *social justice*.

Unlike commutative justice distributive justice cannot be realized without interference of external power. To give something to someone, this is to be taken from someone, which requires power. The state bears the responsibility to realize distributive justice through redistribution, by realizing the justice as a natural human right for satisfaction of his social needs in admissible living standards, social protection and minimal social goods.

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<sup>1</sup> John Rawls (Eng. *John Bordley Rawls*, 1921-2002) — american philosopher, founder of the liberal-state concept of internal and international law, to high extent laid in the basis of the contemporary US policy. The main studies *A Theory of Justice*; 1971, *Political Liberalism*; 1993, *The Law of Peoples*; 1999.

However, ideas of commutative justice contradict with the principle of equality. Natural differences of people entailing the primary inequality cannot be fully compensated by equality of opportunities. Striving to “to reward smb. according to his deserts” commutative justice aggravates the natural inequality among people that cannot be fully eliminated by neither equality of opportunities nor equality of conditions. In this case, the state may perform the function of realizing various types of equality if it sets the objective to achieve social goals and performance of social functions, i.e. social state.

By mid- 19-th century the increased role of the social functions of the state has become so evident that the theory of social essence of the state and social regulators of statehood development has become insufficient, there has appeared a need to fix a new quality of the state with its social attributes. This fixation has become a notion of “*social state*” introduced into the science by Lorenz von Stein<sup>1</sup> in 1850. He noted that the social state must maintain absolute equality by rights for all social strata and for a separate self-actualizing individual through the power it has. By his opinion, the state must facilitate economic and social progress for all citizens since development of one is a precondition for development of the other, in this certain sense he speaks about the social state.

Appearance of the term “*social state*” by itself became a principle moment in realizing the change of the statehood nature. This notion reflected the accomplished transition from the “state of social compact”, “state as the highest form of power” to the state performing social functions.

New social special functions executed by the state became not only a new way to satisfy the social needs of society but also resulted in sharp and abrupt increase of those needs.

In the 80-s in Germany together with the term "social state" there appears another term "welfare state" understood as the state which policy aimed at

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<sup>1</sup>Lorenz von Stein (ger. *Lorenz von Stein*, 1815-1890) — German philosopher, legal scholar, historian, economist, author of the idea of the social state. Main studies *Geschichte der sozialen Bewegung in Frankreich von 1789 bis auf unsere Tage*, 1850 (“History of Social Movement in France since 1789 until nowadays”), *Die Verwaltungslehre*, 1865—1868 (“Study of governance”), *Gegenwart und Zukunft der Rechts- und Staatswissenschaft Deutschlands* — Stuttgart, 1876 (“Present and future of the science on the state and law in Germany”).

improvement of lives of all the citizens. The critical point is a provision of citizens with social rights, and the state - with social responsibility. The principle of a social state became an official doctrine of a number of countries, having gained a legal provision in the Weimar Constitution in 1919 and the Constitution of Czechoslovakia in 1920.

In 1871 for the first time in the history Germany introduced the public social insurance against production accidents, in 1880 the country launched financing of medical aid, in 1883 introduced Medicare benefits. In 1910 Germany launched obligatory pension insurance.

The social insurance against production accidents appeared in Austria in 1887, in France in 1898, in Norway in 1894, in New Zealand in 1900, in Sweden in 1901. Since the 70s of the XIX century until the beginning of the World War II public insurance had covered all social risks in all countries of Europe and America. The state took the responsibility for welfare of population, provided access to social support for all members of society, established public systems of social security and social protection, introduced budget funding for social security and new mechanisms of social policy in the form of the public social insurance, which became a prevailing subject of social functions in society.

The first three decades of the 20-th century highlighted adoption of social laws and introduction of the principles of social state in many national policies. Appearance of social legislation and direct interaction with other standards set the problem of the legal nature of social norms and standards.

The term "*legal social state*" appeared in 1930. The key idea of the legal social state became a focus of the citizens' rights on the social guarantees provided by the state. The connection of the social state with its legal nature became an important step to fix assignment of the state with social functions. Social functions of the state not only gained the legal background but became urgent for the state, thus transforming the legal ground of the state. Personal rights of a human became a milestone in the whole system of the state by determining power through election

right, political nature - through civil rights, and social functions - through social duties and rights.

The start of the next stage of evolution of the notions on the social state was launched by the known report by W. Beveridge<sup>1</sup> in 1942 to the Parliament of Great Britain "Full employment in free society". The report provided the key principles of the "welfare state" and for the first time suggested the idea of guaranteed single national minimal income. The core of the plan was a tight connection between the social policy and the public economic policy, aimed at ensuring full employment. Since then the term "*welfare state*" has become a synonym of the social state. One of the major demonstration of the social functions by "welfare state" at this stage was a provision of public social services.

The feature of new functions of the state, i.e. social services, is that they not only compensate inability to achieve specific life standards but actively create an enabling environment for achievement of those standards by assigning the state with responsibility for equal social opportunities of all social strata. This is the responsibility that to a certain extent makes the state impose its care on a human regardless of his will to ensure realization of the standards adopted by the society. In fact the stage of social services in development of the social state highlights the transition of the state from passive to active social policy.

The Federal Republic of Germany was the first to fix the social nature of the state, by writing in 1949 in its Constitution that "the Federal Republic of Germany is a democratic and social legal federative state". This means that the government executes the policy aimed at ensuring the worthy living standards for a human, satisfaction of the key living needs for all social groups. In 1958 France introduced the status of the social state, Switzerland in 1972, Sweden in 1975, Spain and Turkey in 1978.

Social functions of the state and its social status are fixed in a whole range of international documents: Article 55 of the Charter of the United Nations; Articles

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<sup>1</sup> **William Henry Beveridge** (Eng. *William Henry Beveridge, 1st Baron Beveridge*, 1879-1963) – English economist. Main studies include "Unemployment: A problem of industry", 1909; "Prices and Wages in England from the Twelfth to the Nineteenth Century", 1939; "Social Insurance and Allied Services", 1942, more known as Beveridge's Report; "Full Employment in a Free Society", 1944, "The Economics of Full Employment", 1944.

1-a and 1-b of the Statute of the Council of Europe; the Pact on Economic, Social and Cultural Rights - 1973, etc.

Despite close notions of the "social state" and "welfare state", development of each of these concepts and correlation between them have passed through changes reflecting objective development conditions and the national practice of state building.

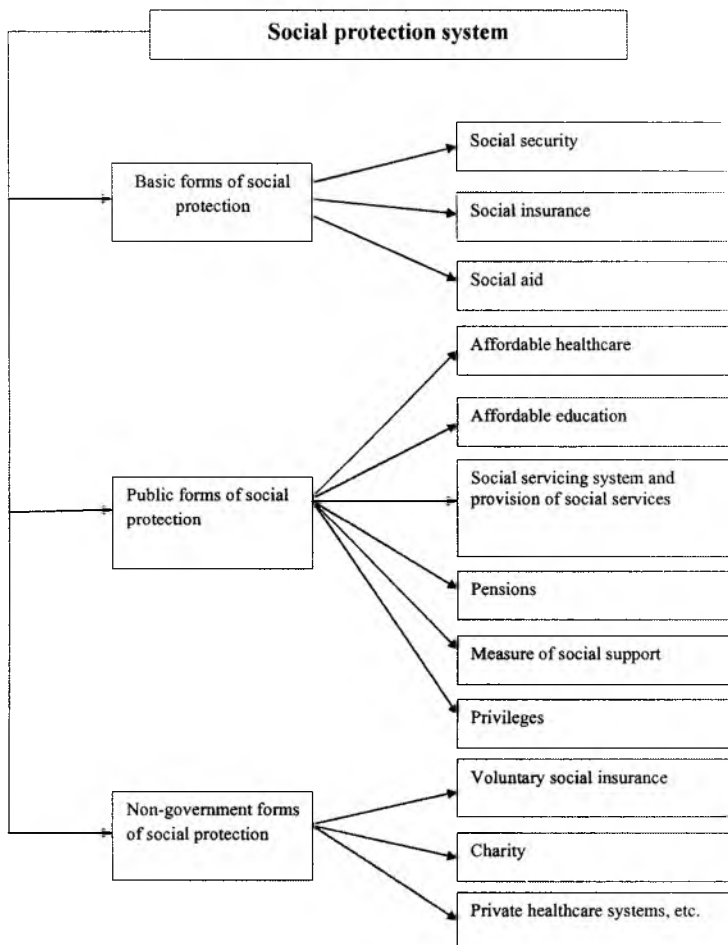
Especially notable distinctions in explanation of the social state appeared after the notion "welfare state" had replaced by "*universal welfare state*". The idea of the universal welfare state appeared on the basis of sharp increase of the living standards in developed countries in 50-60-ies of XX century, when the system of social risks insurance compensated almost fully the uncertainty of future. Unlike the previous forms the universal welfare state aimed at achievement of relatively equal high living standards of the total population.

However focus of the universal welfare state on ensuring continuously growing living standards general for all members of society faced economic, demographic restrains and crisis of insurance mechanisms. Since 70-ies of XX century expenses for social security in many countries have started to grow more rapidly than receipts, which required widespread increase of taxes and obligatory charges to the social security system. Increased burden on economy in its turn started to limit efficiency and required reduction of the load of obligatory charges and taxes, thus resulting in partial cutback of social programs and benefits, and which is more important caused reform of the public social policy, which brought to revision of the principles, functions and mechanisms of social responsibility.

Financial problems resulted in widespread principle of *target (selectivity)* social aid. During the crisis, when financial resources are insufficient and the needs are rising, there is a need in provision of target benefits to the neediest citizens. At present most countries apply target benefits, the respective volume depends on income or general welfare status.



Social protection system has three basic forms: social security, social insurance and social aid. Public and non-government forms of social security are also distinguished (Fig. 7.1).



**Fig.7.1. Social Protection System**

*Social security* is a form of expression of the public social policy aimed at material provision of a certain category of citizens from the state budget and special off-budget funds in case occurrence of the cases accepted by the state as socially significant (at this stage of its development) to level social status of the citizens comparing with the other members of society.

The need in social security appeared simultaneously with appearance of human society. Any society regardless of economic and political structure has people, who due to the natural reasons, beyond their control, cannot by themselves gain the source of livelihood. These people include first of all, children and old men. In addition the range of the disabled may include any person who lost the ability to work temporarily or permanently. In the course of evolution of society and complication of social relations the list of the reasons that push people to search for social aid extends to those that are provided by the prevailing in the society economic relations entailing unemployment, inflation, poverty.

Social security is considered as:

- form of distribution that guarantees normal living standards and cultural level to citizens beyond remuneration of labor in old age, in case disability and loss of breadwinner;
- form of material provision and servicing of citizens by age, disease, disability, unemployment, in case of loss of a breadwinner, child care and other legally provided cases;
- the set of social relations among citizens on the one hand, and public authorities, local self-governance bodies and organizations – on the other hand, regarding provision of medical aid, pensions, benefits and other types of support through special funds and budget resources in case occurrence of the circumstance entailed loss or reduction of income.

Legislation assigns only six types of social security:

- pensions;
- benefits;
- social security compensations;

- privileges;
- social and medical services;
- primary necessities.

Each of the abovementioned types, as a rule, consists of a certain number of variations. The types of social security have a sustainable, stable character, but variations change regularly, vary depending on specific political, economic and other conditions, which the state has at a certain stage of historical existence.

Social insurance is the most important element on social protection system. *Social insurance* is a system established, regulated and guaranteed by the state to maintain, support old people, disabled citizens at the cost of the state target off-budget Social Insurance Fund, as well as other collective and private insurance funds. Social insurance is a system of monetary benefits:

- unemployment benefit; disability benefit;
- maternity and birth benefit;
- retirement pension, disability pension and pension in case of the loss of a breadwinner.

In developed countries medical and pension insurance is fulfilled through withholdings from wages and profit at a single rate. In the USA, for instance, a rate of 7.5% is withdrawn from the wages of paid workers. In Sweden social funds are formed fully at the cost of the state.

Voluntary insurance also exists. In particular:

*voluntary supplementary (professional) insurance*, fulfilled in separate sectors and economic entities based on long-term collective agreements. Recently non-government pension funds have become widespread in CIS countries, including Uzbekistan;

*voluntary personal insurance of citizens*, provided on contractual basis, which restrains its frameworks and performance by the fixed periods of time, specific types of insurance risks, financial opportunities of the insured persons.

*Social aid* is a care provided by the state and society on the citizens in need for aid due to the age, health, social status, insufficient livelihood. Social aid is a

support in cash or in-kind form provided in line with legally set guarantees of social security.

**Table 7.1**

**Proportion of characteristics of the main social protection institutions**

<b>Characteristics and mechanisms</b>	<b>Public social aid</b>	<b>Public social security and pensions</b>	<b>Voluntary supplementary social insurance</b>	<b>Voluntary personal insurance</b>
<b>Regulation conditions</b>	Availability of objective need in aid to be provided by the state	Availability of insurance record, disability, loss of a breadwinner	Based on collective contractual relations	Based on individual insurance agreement
<b>Organization principles</b>	Joint liability of the whole society	Responsibility of the state as an insurance provider, pensions responsibility	Joint mutual aid of professional groups	Self-responsibility of citizens
<b>Financing</b>	Budget sources	Obligatory insurance fees, budget for separate categories of workers	Voluntary insurance fees of workers and employers	Voluntary insurance fees of citizens
<b>Performance mechanisms</b>	Need assessment	Assessment of social types of risk and financial opportunities	Assessment of professional risks	Assessment of individual risks
<b>Forms of administration</b>	Public (state)	Public (state)	Self-governance	Private insurance companies
<b>The order of calculation of charges</b>	Set depending on the category of the recipient	Work record, rate and duration of fee payment	Work record	Volume of individual insurance fees and duration of fee payment

The volume of social aid, as a rule, is not linked with the volume of previous income or established general living standards of population. The definitive characteristics of this social protection institution are in socially supporting non-contractual relations of the state on provision of aid to the socially vulnerable groups of population. As a rule, payments from this system are supplements to the available incomes after revision of the actual need, and the principle basis is a lack or insufficiency of funds to satisfy minimal living needs. Financial sources for social aid, as a rule, include the national or local budgets, resources of charity funds.

Social protection system determines the following levels:

- social protection by the state;
- social protection by local self-governance bodies;

- social protection by employers;
- social protection by public associations, including trade unions;
- family protection and self-protection.

It should be noted that in a number of social policy objects the key role belongs to the state, since other private subjects of the social policy act as institutions achieving the goals set by the state and function with the frameworks specified by the state. In other words, the state for achievement of its goals acts through many subjects of various types of activities that can be treated as subjects of the public social policy only to the extent in which they cover the social goal set by the state. Any other their activities, even being of social effect, cannot be considered a state target social policy, i.e. in the end the subjects of the public social policy are the state as a form of power administration, state institutions and social structures which performance in the social area is defined by the state goals.

In democratic state social goals are established based on the interests of civil society institutions, and the public social policy is a summarized vector of various interests of different social groups.

The state is a subject of social policy, which performance aims at regulation of the social development of society, satisfaction of material and spiritual needs of its members and regulation of social differentiation processes in society. However, it is obvious, that despite a certain link, satisfaction of social needs and regulation of public relations refer to different functional systems of the state. Despite conditional character of economic, political and social areas, in fact the social area includes social functions of the state, while regulation of public relations is a political performance aimed at solution of political objectives of authorities.

Availability of the need in society to achieve social goals and their mediated satisfaction as a result of the activities of the state in economic and political areas solely does not mean availability of target social policy of the state. In fact social policy as a target performance to achieve social goals undertaken by the state only after it gains social functions, i.e. only when the state takes direct responsibility and commitment to satisfy social needs of citizens.

In a specific understanding of social policy as target activities of the state for execution of its social functions it should be stated that social policy of the state appears only after it gains specific social functions. The tie of the social policy to the social functions of the state allows suggestion that evolution of the structure of the state's social functions is a basis for structuring its social policy. In the course of evolution of the state from the elementary forms to more complicated ones the social policy and structural elements pass through respective transformation.

Based on the objects of social protection, the following categories of population can be determined:

- children;
- low-income families and citizens;
- women and mothers with many children;
- old people;
- sick people and disabled;
- the unemployed.

An important element of social protection is the programs of job placement and retraining of employees. The state and entrepreneurs are involved at enactment of these programs. In order to create new working places the state commits to do community services. During economic crisis, the state increases investments in state-owned enterprises. Job placement programs are also carried out by the preferential taxation of companies that create working places.

On nation-wide scale with the view of reducing the unemployment rate, the modern state affects wage cuts, so that its growth rates were below labor productivity growth. For this, active credit and monetary policy is carried out. Shortening of the work hours can give concrete results in the implementation of job placement policy. Over the past 100 years in the most of developed countries, the working hours were halved.

Legal regulation of home-based labor is one of the elements of the social protection system under conditions of the market economy, which is executed through legally set minimal rate for wage, pensions, order for execution of

collective agreements in terms of labor conditions, payment of labor force, social insurance, vocation, etc.

Income policy is a component of the public social policy. It aims, particularly, at loosening differentiation of incomes and property, softening contradictions among participants of the market economy and prevention of social conflicts. Thereby, the target (i.e. focused on specific groups of population) social support by the state, first of all, weakly protected population strata, is an important objective of the social policy. Solution of this objective aims to support optimum proportions between incomes of the active (employed) part of population and disabled citizens through taxes and social transfers.

The public social policy includes harmonization of relations among participants of the market economy in the form of *social partnership*, that stipulates conclusion by the government, national associations of employers and trade unions, acting as equal partners, a “public agreement” in economic and social policy.

Social partnership is actively used by industrially developed countries and transition economies for formulation and implementation of income policy. The instrument of such an interaction are trilateral commissions composed of the representative of the government, employers and trade unions concluding annual agreements to regulate dynamics of wages and separate social payments. Social partnership agreements regulate employers’ performance (timely payment and adjustment of wages, creation of new jobs, observation of safety engineering) and paid workers (observance of technological discipline, etc.).

At present the key areas for development of the social protection system include the following:

- introduction of highly targeted unified benefits instead of overlapping insignificant benefits for the needy categories of population;
- strengthening regulation of the categories of population requiring social aid and verification of the extent of their need;

- development of civil sector in the leading sectors of the social area (healthcare, education, public utilities) through expanding the mechanisms of cooperation in funding those areas;
- redistribution of financial burden to maintain social protection system be the national and local budgets;
- development of private entities and non-for-profit organizations in the social sectors;
- transition to program-based funding of the social sector, application of social standards and public control over the spending of financial resources;
- formulation of a social order and attraction to its implementation by economic entities.

## **7.2. Strong social policy is a priority direction of “Uzbek model” development**

Although the Constitution of the Republic of Uzbekistan has no separate article on the social status of the state, providing in particular the basics of constitutional structure, it is, in fact, a social state which policy fully aims at creating conditions ensuring worth life and free human development.

In the course of formulation of reforms strategy Uzbekistan paid specific attention to strong policy as one of the most important principles of “Uzbek model” of development.

It is known that the initial conditions for reforms during the first years of independence in Uzbekistan were quite difficult. In the early 1990-s Uzbekistan occupied one of the lowest positions but the living standards among the republics of the former Soviet Union. The share of population with income below 75 roubles was 43.6% (on average across the Union – 11.0-12.0%). This is 27.6% of the total population living below the poverty line in USSR.

For instance, in 1985 in Uzbekistan the average per capita consumption of meat and meat products was 31 kilograms, twice as little as on average across USSR and 2.5 times lower than scientifically justified standards. However,



consumption of low-calorie bread products was much higher, by 33.0%, comparing with the all-union level<sup>1</sup>.

Therefore, at the initial stage of transition to market it was very important to apply mechanisms for advanced social protection, adopt effective measures for social support and protection of population.

That mechanism was launched, which allowed maximum prevention of sharp cut-down of income and consumption of the primary necessities.

Under tough conditions of transition the state became a consolidating power able to unify society and lead its potential to achieve the crucial goals to facilitate human development. The principle was stated and realized highlighting that *“Reforms are for reforms but for the sake of a human”*. Whatever the objectives the state and society set, whatever problems they have to solve, everything comes to a human, because development of a society is impossible without human development. That is why the most critical characteristics of “Uzbek model” of reforms are that a human has always been in the center of reforms. Human factor, human development identified the core focus and efficiency of conducted reforms.

The President of the Republic of Uzbekistan, I.A. Karimov emphasized that *“...in all our activities: whether it refers to formulation of economic policy or implementation of economic reform and modernization programs, or definition of the most urgent long-term priorities in social area, education and healthcare, the prevailing and comprehensive significance for us is only one priority, priority of human interests. Steady and gradual increase of the living standards and quality of life of our nation is the chief goal, which in the end, must lead all our plans, resources and opportunities”*<sup>2</sup>.

Human development stems from achievement of compliance between the natural human aspirations, general human values, their requests and needs, and the real economic development. Thereby, the main thing is not to depreciate social

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<sup>1</sup> S. Safaev. Development of labor and acceleration. – T.: Uzbekistan, 1988. – p.16.

<sup>2</sup> I.A. Karimov. Ensuring the priority of human interests – The main goal of all reforms and transformations. – T.: IPTD “Uzbekistan”, 2008. - P.42.

area, human factors of economic development. Only in this case the impact of society on people as its members is not limited (given that it is made through its social area).

The most important elements of traditional rites of Uzbek nation are a greeting which includes questions about health, family, work and wishes of long-lasting, prosperous and productive life. Hence, the idea and essence of the core provisions of human development are very close to Uzbek culture and mentality. The national government despite problems of a transition period strived to respect as much as possible these cultural values, well balanced with the notion of human development. Uzbekistan was the first on the post-Soviet area to proclaim social protection of population as one of the baseline policy issues during transition. In 1994, i.e. three years after proclaiming independence, the structure of the social protection system was fully changed to provide more target social aid to the neediest population.

By undertaking fundamental reforms for human sake, Uzbekistan paid major attention to the natural aspirations of people, to full discovery of their capacities, initiatives, creative abilities. With this aim, first of all, an organic interaction between the motivation of human labor and market mechanism. Human factor of market development was launched, alienation of property from owner was overcome. Linkup of a free market mechanism with human interests and motivation of labor activities resulted in increased efficiency of labor, compliance of the national and personal interests.

The socio-economic reform in Uzbekistan was fully aimed at true humanization of labor, i.e. at the interest of working people, created a required impulse for reform implementation. In free economy, free production a human is not only a worker, producer, owner but, first of all, a creative individual. His essence is in positive impact of a human factor. The respective output is a gradual transition to market. This is what considered as the key impact of a human factor on economic growth. This is how human factor of production became a basis of the strategy for fundamental renewal of the society.

During the process of market reforms implementation the key strategic goals of the state in the social area aimed, first of all, on improving the life quality and welfare of a family, each specific person. This reflects the essence of the social policy in transition period, further strategy of conducted reforms. There are three critical mechanisms of social policy applied in Uzbekistan:

1) normative and institutional basis and mechanisms providing observation of civil rights guaranteed by the Constitution of the Republic of Uzbekistan and laws;

2) effective mechanism and conditions to trigger potential of “social self-protection” of population;

3) Normative, institutional and resource basics for target protection of separate groups and categories of population which due to objective reasons cannot actively participate in market relations.

Implementation of this policy involves various social systems: social insurance, support to the unemployed, aid to low-income families and provision of privileges and benefits to separate categories of citizens, etc.

The mechanisms of social protection in the Republic of Uzbekistan include comprehensively justified system of legal norms, state and municipal authorities intended to provide material and organizational support to the people in need, funding pension system, support to students, families with many children and low-income families through budget mechanism and state guarantees.

The bodies responsible for social protection in the Republic of Uzbekistan include the following:

1. Ministry of Labor and Social Protection of Population of the Republic of Uzbekistan is a central public administration body in the area of labor, employment, social protection and social security of population, subordinates to the Cabinet of Ministers of the Republic of Uzbekistan.

The Ministry has the following key objectives:

- formulation of proposals to improve legislation related to labor, employment and social protection of population given long-term priorities of socio-economic development;

- preparation of effective measures to develop and regulate labor market, facilitate employment of population including that of abroad, introduction of progressive forms of employment based on demographic factors and economic development prospects;

- provision of high-quality services for re-training and employment of unemployed population, first of all young people, women and people with disabilities, as well as on material support to the unemployed;

- implementation of effective and target social protection measures for old people, people with disabilities, low-income families and other vulnerable categories of population, improving mechanisms of social servicing, strengthening material base of medical and social facilities;

- control over observation of the laws on labor, employment and social protection of population, measure for improvement of labor relations, mechanisms of material encouragement and labor protection.

2. Local authorities.

3. Federation of Trade Unions of the Republic of Uzbekistan, mass public organization that joins on a voluntary basis working people of all professions and students regardless of their sex, religious beliefs, race and ethnic origin.

The priority issues of social policy at the initial stage of economic reforms focused on maintaining incomes of population with regards to price liberalization and inflation growth, protection of the national consumer market. The whole range of undertaken measures prevented sharp decline of the population living standards. Transition to the market relations was not affiliated with a substantial aggravation of social indicators, and by some of them even demonstrated some improvements. For instance, there was no “shocked” stratification of society by income, while economic reforms in Uzbekistan managed eliminate equalized distribution of goods and services.

This approach reflects a specific social focus of contemporary market economy and an establishing trend of appearance in developed countries of a modern social state, which relates directly to the countries undertaking market reforms. Upon deepening market reforms under conditions of economic liberalization the country started to transfer from social protection based on redistribution of the national income to a new system based on economic activity of a human through investments into development of those activities, strengthening the principles of solidarity and responsibility of citizens, regions, and the state for increase of welfare. The role of the state does not become less, especially in terms of resources provision of activities aimed at social protection of population.

The main sources of funding and general regulator of the social protection system are budgets of all levels because they serve the whole population. however together with the state mechanisms of social area regulation, non-government institutions should also develop to cover social protection and social insurance issues, which funding should base on personal contributions of citizens and participation of the state and business.

Social protection institutions in Uzbekistan adopt a set of measures aimed at increasing the living standards of the socially vulnerable groups of population as well as the categories of population requiring specific attention from government authorities, public administration bodies, public institutions, specialized organizations, employers and individuals. These measures include social and medical-social aid, social servicing, labor, professional rehabilitation, provision of privileges by separate categories of population, etc.

The system of social support in the Republic of Uzbekistan aims, first of all, at *increasing welfare of vulnerable population* including:

- disabled people, who have a legally assigned disability category regardless of the reasons caused disability, as well as disabled children under 18;
- persons injured during anthropogenic and natural catastrophes, natural disasters as well as military and international conflicts;

- single old people above 65 (men) and 60 (women) who have neither work record required for age pensions nor material support provided by the people who in line with the legislation must ensure material support to them, as well as single old people requiring special care;

- low-income families and separate citizens with income below the level set by a self-governance body;

- children from families with many children and low-income families;

- orphans and children left without parents' care;

- persons with socially significant diseases;

- mothers from low-income families, taking care of a child under 2 or replacing a mother in case absence;

- families that lost breadwinners, widows (widowers) taking care of children under 18;

- officially registered unemployed citizens.

Besides the specified categories of people social support is provided to separate categories of population that require enhanced attention by the state and society including children, young families, war veterans and some other categories of citizens.

*Social servicing* to citizens in case diseases, disability, need in regular care caused by inability or substantial difficulties with regard to self-servicing is provided as follows:

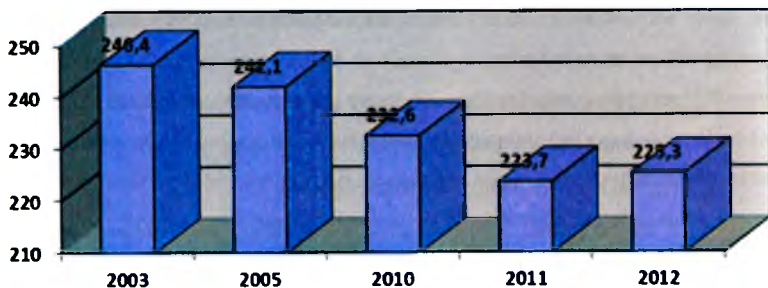
- free medical-social aid including prophylactic, treatment-diagnostics, rehabilitation, sanatorium-resort and other types of aid;

- constant or temporary free stay at specialized social protection facilities;

- social-domestic servicing at home for single old citizens requiring such services;

- free provision of prosthetic and orthopaedic appliances, transport means and technical rehabilitation means based on medical indications;

- free or partially paid health improvement for separate categories of citizens at sanatorium-resort facilities, preventive and recreation facilities.



**Fig.7.2. Number of social benefits recipients in the Republic of Uzbekistan<sup>1</sup>**

*Social aid* is provided under condition that citizens and families by themselves have no objective opportunity to cover their needs through their own funds, property or other material resources at the level of the minimally set social standards of population welfare.

Social aid is provided through:

- monthly cash benefits to low-income families with children under 18 and material support to low-income families, as well as lump-sum benefits to “Mekhribonlik” leavers and family-types orphanages;
- monthly benefits to unemployed mothers (or replacing persons) taking care of children under 2;
- free provision of winter clothes, textbooks and learning appliances for children from low-income families and families with many children;

<sup>1</sup> Statistical Yearbook of the Republic of Uzbekistan. – T.: State Statistics Committee of the Republic of Uzbekistan, 2013. – p.68.

- free food and medicines (upon necessity) for single old people requiring care in line with the established standards;

- monthly benefits to single old people who have no work records for pensions by age or disability, as well as benefits to people with childhood disabilities after they reach 18;

- monthly unemployment benefits and lump-sum material aid to the families of the unemployed;

- transfer to the possession by low-income families and families with many children of cattle for private subsidiary farms.

Social aid to separate categories of population in the form of a gratuitous transfer of goods (property) and free services in case the citizens have no objective ability to purchase them because of insufficient income or limited physical abilities.

**Professional, labor and social rehabilitation** is carried out to facilitate full-fledged vital activities and integration of citizens suffering chronic diseases, people with disabilities, individuals released from confinement institutions by the court sentence and other people requiring professional, labor and social rehabilitation by specialized social protection institutions:

- free provision of prosthetic and orthopaedic appliances, transport means and technical rehabilitation means in line with the established standards;

- professional training re-training and qualification improvement based on the health state and available skills and profession including through stay at stationary rehabilitation facilities;

- recovery of labor and professional skills, and upon necessity, development of skills and abilities for self-servicing through advanced pedagogical methods and learning technologies;

- reserve and creation of new specialized jobs at enterprises, institutions and organizations, and employment to those jobs for the people requiring professional, labor and social rehabilitation.



*Social privileges* provided to separate categories of population including the following:

- provision of priority right to use services of social infrastructure facilities;
- free of partially paid use of transport, public utilities and other services provided by social infrastructure facilities;
- free or partially paid purchase of medicines and medical appliances;
- free meals at in-patient medical facilities;
- free health improvement services by sanatorium-resort facilities;
- partial or full exemption from income, property and land taxes;
- pension privileges;
- labor-related privileges;
- privileges for obtaining microcredits, consumer credits and mortgages;
- other types of social privileges and preferences provided by the law.

Social support system in Uzbekistan to a certain extent covers 43.0% of the total population as recipients of social aid, services or privileges. Almost all the above measures are funded by the national or local budgets. Insignificant share (less than 5.0 %) of the total expenses for social support is funded by social off-budget and charity funds.

Improvement of pension system occupies a special place in implementation of the social policy. According to the effective legislation in the Republic of Uzbekistan the following types of state pensions are established:

- by age;
- by disability;
- by the loss of a breadwinner<sup>1</sup>.

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<sup>1</sup> The Law of the Republic of Uzbekistan "On the State Pension Provision of Citizens" // *Bulletin of the Supreme Council of the Republic of Uzbekistan*, 1993, № 9, p. 338; *Bulletin of Oliy Majlis of the Republic of Uzbekistan*, 1995, № 12, p. 269; 1997, № 4-5, p. 126; 1998, № 9, p. 181; 1999, № 5, p. 112; 2001, № 5, p. 89; 2002, № 4-5, p. 74; *Collection of legal acts of the Republic of Uzbekistan*, 2005, № 21, p. 148; 2007, № 50-51, p. 498, № 52, p. 533; 2008, № 52, p. 513; 2010, № 20, p. 149, № 35-36, p. 300, № 51, p. 483; 2012, № 1, p. 4; 2013, № 41, p. 543

Pension by age in Uzbekistan is allocated to insured workers on the general basis: men upon 60 years with the total work records of at least 25 year, women – upon 55 years with the total work records of at least 20 years.

Separate categories of insured workers get pensions prior to the legally set age, in respective cases – shorter work records.

Pensions by disabilities are allocated to the persons accepted as disabled in line with the legally established order.

Pension by the loss of a breadwinner is allocated to disabled members of the family of the breadwinner, who died as a result of a labor injury or professional disease regardless of the work records, in case of the death was caused by other reasons – with regards to the general work records depending on the age of the insured worker by the day of death.

At present the average pension in Uzbekistan comparing with the average wage is 37.5 %, in Russia – 25.7%, Central Asia states – 23.0-28.0%. In 2014 this index is intended to reach 41.0 % (table 7.3).

**Table 7.3**

**Average monthly pensions<sup>1</sup>**

<b>Indexes</b>	<b>2003</b>	<b>2005</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Total	17566	31711	171919	218475	274013
Including: By age	17707	31481	174136	219858	283826
By disability caused by labor injury or professional disease	14264	26004	139531	176700	236616
By disability caused by general diseases	15711	28412	149853	193487	243797
By the loss of a breadwinner	15639	27451	132077	162466	195257

It should be noted that demographic situation in the country provides sufficiently favorable conditions for pension system. Dependency rate, i.e. the ratio

<sup>1</sup> Statistical Year-book of the Republic of Uzbekistan. – T. The State Statistics Committee of the Republic of Uzbekistan, 2013. – p.69.

of the number of pensioners to the number of working people is 0.3, which is better than in the most developed countries. This creates the required preconditions for a long-term sustainability of the Pension Fund.

However, given that the current pension system came into conflict with the market principles stipulating assessment of the contribution made by each worker not only in his current material status but in future, the solidary pension system was supplemented by cumulative system. In line with the Law of the Republic of Uzbekistan “On Cumulative Pension Provision of the Citizens” cumulative pension system was launched in 2005 in addition to the current system of the state pension provision.

The state and cumulative pensions are not alternative but mutually complementary ones. Introduction of this system became possible due to reduction of inflation upon appearance of all necessary mechanisms for protection of pension savings from the loss of value.

Uzbekistan gradually implements target national programs for protection social protection of population, especially vulnerable categories, which is in the basis for undertaking the following measures:

- sustainable economic growth in the country, which requires, first of all, achievement of final stabilization of prices and accelerated GDP growth;
- expansion of the scope of labor activities, development of effective economic sectors (production of goods and services). This will result in transition of labor resources from ineffective sectors to more effective ones, especially from agricultural sector;
- creating conditions for expansion of entrepreneurship, individual labor activities and other forms of employment and respective increase of population's income.

The Republic pays much attention to further strengthening the principles of social justice, prevention of sharp stratification of society by income and living conditions. Thanks to accelerate increase of wages and incomes of vulnerable population, provision of support and tax preferences, for the last decade

Uzbekistan has managed to achieve general growth of population income by 8.1 times, the gap between the population with the highest and the lowest incomes has declined from 21.1 to 8.3 times. This is one of the lowest rates in the world, which demonstrates effectiveness of the conducted social policy preventing sharp stratification of society.

Starting from 1997 and each following year Uzbekistan devotes to solution of a specific large social problem, with this aim the government formulates and implements a target national program to achieve the objective set.

**Table 7.3**

**Priorities of socio-economic development in Uzbekistan in 1997-2013**

<b>Year</b>	<b>Thematic priority of development</b>
1997	Year of human interests
1998	Year of family
1999	Year of women
2000	Year of healthy population
2001	Year of mother and child
2002	Year of interest of elderly population
2003	Year of makhallya
2004	Year of kindness and mercy
2005	Year of health
2006	Year of charity and medics
2007	Year of social protection
2008	Year of youth
2009	Year of increasing rural welfare
2010	Year of harmoniously developed population
2011	Year of small business and private entrepreneurship
2012	Year of family
2013	Year of welfare and prosperity
2014	Year of a healthy child

In 2013, the Year of welfare and prosperity a complex of target measures for mobilization of resources and opportunities, broad involvement of government, non-government and public organizations into implementation of objectives on increasing the living standards and quality of life. In 2013 the funds allocated for development of social area were increased by 1 trillion sums than in 2012. 6

trillion 930 billion sums and over USD 471 million mobilized from various sources for implementation of the State Program “Year of welfare and prosperity”.

For purchase of home appliances rural population was provided with consumer credits totaling almost 68.0 billion sums, young families were provided with financial support for construction and purchase of housing, i.e. mortgages totaling over 346 billion sums. 213 billion sums were drawn for laying of water supply networks over 1,850 kilometers long, water supply was improved in many settlements where 1,370 thousand people live. In addition 8 large investment projects totaling USD 96 million were implemented in Andijan, Bukhara, Navoi, Surkhandarya and Ferghana regions and Samarkand, Bukhara, Termez and Kokand cities, which allowed supply of clean drinking water to 365 thousand people, as well as improvement of sewage systems.

In general, the system of social support in Uzbekistan is a complex of measures aimed at increasing the living standards of socially vulnerable categories of population as well as the persons requiring increased attention by the public administration bodies, civil society institutions, specialized organizations, employers and individuals.

### **7.3. Makhalla is a unique institute of organizing population social protection of Uzbekistan**

Not only government agencies play an important role in solution of human development objectives but also business and civil society institutions. It is obvious that the state is not able to solve the whole range of social problems without support of the society. The central government agencies pay major attention to strategic development of the sectors aimed at creation of human potential, while the local authorities and civil society institutions focus on solution of the current social problems. Decentralization in solution of a substantial part of social issues becomes more and more urgent objective ensuring social welfare of the society.

Funding of such important for human development sectors as healthcare and education Uzbekistan almost fully provides from local budgets.

Self-governance bodies, makhallas, occupy a specific place in the social structure of Uzbekistan. Self-governance of citizens is guaranteed by the Constitution and the laws of the Republic of Uzbekistan independent activity of citizens for solution of local objectives given their interests, historical development features as well as the national and spiritual values, local customs and traditions.

Self-governance bodies are not included into the public administration system. Opportunities of decentralization for expanded human development are discovered through changing and reducing functions of the central public administration bodies, strengthening potential and expansion of authorities assigned to local government, development of self-governance of citizens.

For the years of independence Uzbekistan has adopted system and gradual measures to strengthen and develop legal basis for performance of self-governance bodies as an integral part of political, economic and spiritual life of the society, the most important primary link of public self-governance with a powerful constructive potential. At present nearly 10 thousand of assemblies of citizens operate in the country.

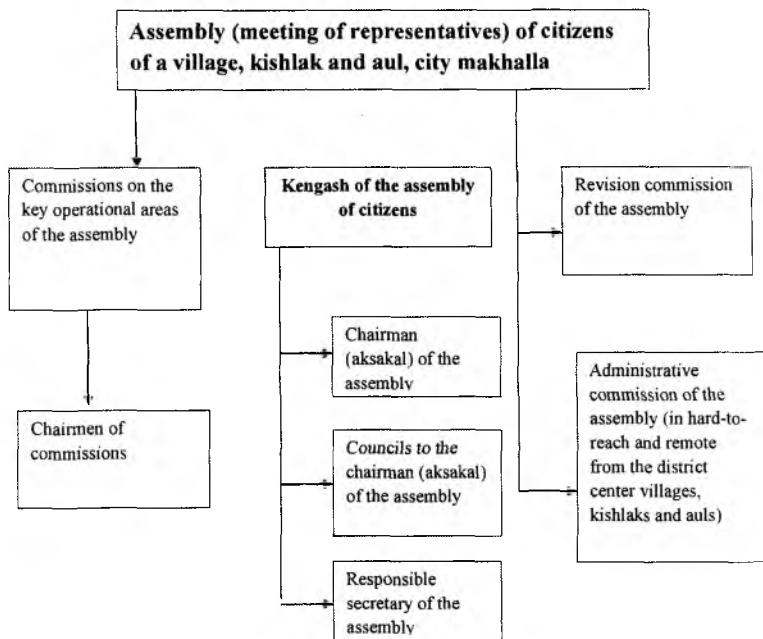
Establishment and development of civil society, self-governance institution, makhalla, is based on gradual fulfillment of the principle *"From strong state to strong civil society"*.

Civil society is, first of all, a developed system of self-governance bodies. Makhalla is one of the basics for building democracy in Uzbekistan, providing through its performance the constitutional right of the citizens to direct participation in public administration, solution of urgent socio-economic development objectives.

Self-governance bodies are assemblies (meetings of representatives) of citizens of a village, kishlak and aul, as well as makhalla (Fig.7.3).

The main principles of performance of self-governance bodies in Uzbekistan are openness, publicity, social justice, humanism, independence in solution of local issues, social mutual assistance. They actively participate in active elections to the representative government bodies of all levels, they are also established on an

election basis. The chairmen and councils of the assemblies of citizens are elected once in 2.5 years.



**Fig.7.3. Assembly (meeting of representatives) of citizens of a village, kishlak and aul, city makhalla**

Self-governance bodies facilitate speeding-up public-political and economic changes implemented in the country, and perform over 30 functions that used to be prerogatives of local governments, in particular:

- approve action plans for comprehensive area-based development, improvement of sanitation in settlements;
- perform public control over execution of laws and other legal acts, as well as their solutions;
- adopt decisions on nominating the deputy candidates to the local Councils and Oliy Majlis of the Republic of Uzbekistan;

- quarterly hearings of the reports of district, city and regional Khokims within competence of self-governance bodies;
- consider, within their competences, reports of the heads of enterprises, organizations and institutions located on respective territory, on the issues of environment and accomplishment;
- take decisions on support to low-income families in repair of houses and apartments;
- take decisions on cooperation on a voluntary basis of funds of the legal entities and individuals for development of the social structure within their territory;
- facilitate employment of citizens living on their territory, including arrangement of home-based labor;
- take decisions on establishment, reorganization, and liquidation of small enterprises, workshops for footwear repair and production, handicraft workshops and other domestic service enterprises in line with the legally established order;
- support environment protection;
- provide recommendation on arrangement of weddings and other ceremonies;
- arrange public support (khashar), etc.

Two laws in new editions were adopted in 2013 to increase the role and influence of makhalla in socio-economic life of the country. The new Law of the Republic of Uzbekistan “On Self-Governance Bodies” aims at transforming makhalla into a target social support center, development of private entrepreneurship and family business, as well as further expansion of makhalla in the system of public control over performance of public administration bodies. The new edition of the Law of the Republic of Uzbekistan “On Election of the Chairman (Aksakal) of the Assembly of Citizens and His Assembly” provides measures on further improvement of a self-governance body’s chairman election system. These measure aims to ensure election of the most respectable citizens for



the positions of aksakals and their councils, and increasing the significance and role of makhalla in facilitating public activities of citizens.

Uzbekistan has a specific experience in decentralization of social aid distribution function. In 1999 distribution and payment of social benefits to low-income families, nonworking mothers with children fewer than 2 were assigned to self-governance bodies, i.e. makhallas. Given better awareness of makhallas on the needs and requirements of population living on their territories, such an approach turned to be the most effective, especially given the limited government resources.

Given that there is no an institution of obligatory universal income declaration, the established mechanism for detection of low-income families facilitates accurate and target provision of benefits and material aid to those who really need them. The central link in this chain is makhalla, which is better than anyone aware on the actual material status of each family, and under conditions of openness and publicity takes decisions on provision of the public social support. At present low-income families obtain nearly 6.0% of the public expenses through makhallas<sup>1</sup>. This mechanism got high assessment by international experts.

Separate groups of population (disabled persons, single pensioners, old persons without required work records for pension, orphans, children from low-income families and other categories) are provided by self-governance bodies with sets of winter clothes, free learning appliances, they also arrange regular home visits to single old citizens requiring care, pay public utilities and transport services, vouchers for health improvement to sanatorium-resort facilities, etc.

Value of makhalla is also in support in development of historical traditions of the nation, its operations attract all citizens including young people and women. It plays an important role in democratization of society, facilitation of peace and interethnic concord, it is assigned with solid authorities to govern its territory, provision of target protection, solution of many social, humanitarian issues related to the life style of people.

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<sup>1</sup> Uzbekistan – 2005. Human Development Report Decentralization and Human Development / United Nations Development Program, Center for Economic Research, 2005. P.45.

Small enterprises are established in makhallas as well as social infrastructure and home-based jobs. Assemblies of citizens carry out activities on employment and re-training. Makhalla more and more turns into a center of family business and private entrepreneurship.

Makhalla makes outstanding contribution to consolidation of spiritual and moral values in society, philosophy of health life style, raising harmoniously developed young generation, solution of local issues related to education, employment, environment protection, accomplishment, public safety and law enforcement. Implementation of respective programs strengthens cooperation between makhalla and public administration bodies, as well as with non-government non-for-profit organizations and other civil institutions.

The findings of the sociological poll conducted by the Center of Public Opinion Study "Ijtimoiy Fikr" demonstrated that makhalla citizens regularly appeal to the assembly of citizens to get assistance in solution of personal problems (51.0 % of the questioned), social aid (40.6 %), settlement of disputable issues in a family, makhalla (13.4 %), support in arrangement of various events (12.7 %). Most of these appeals had positive results. The poll demonstrated the over half of the population gives positive assessment to the performance of the self-governance body operating in their makhallas. The absolute majority of citizens (90.9 %) think that makhalla plays a significant role in their lives and lives of their families.

Given a huge contribution made by self-governance bodies in development of society, implementation of urgent socio-economic development programs specific priority should be given to further improvement of the legal framework regulating their performance, expansion of makhalla's functions and close cooperation with public administration bodies, promotion of social partnership between them.

The concept of further strengthening of democratic reforms and building civil society in the country emphasizes that civil institutions become an important factor of protection of democratic values, rights, freedoms and legal interests of people, create conditions for people to realize their potential, increase their public,

socio-economic activities and legal culture, facilitate balance of interests in society.

Thereby, measures are taken with an aim to strengthen the legal basis for performance of self-governance bodies, transformation of makhalla into the center of target social support to population, development of private entrepreneurship and family business, as well as further expansion of makhalla functions in the system of public control over performance of public administration bodies.

### ***Control questions***

- 1. What mechanisms provide commutative and distributive justice in social policy?*
- 2. Name the main institutions of the social protection system. What are their features?*
- 3. What are the characteristics of the social state?*
- 4. Indicate the most critical areas of the social policy mechanism execute in Uzbekistan.*
- 5. What population groups should be classified as socially vulnerable?*
- 6. Which pension system guarantees longer efficiency, solidary or individual-cumulative?*
- 7. What functions are assigned to self-governance bodies in terms of provision of social aid to population?*

## PART III HUMAN DEVELOPMENT IN UZBEKISTAN

### CHAPTER 8. “ALL FOR THE PERSON, FOR THE SAKE OF PERSON’S INTERESTS”

#### 8.1. Gaining the independence and elaboration of national model of human development

After the acquisition of independence by Uzbekistan, the republic followed the way of creation of the democratic constitutional state with socially oriented economy and formation of civil society where a person, their interests, rights and freedoms constitute the highest value.

The process of formation of the new Uzbek statehood happened in difficult conditions. In domestic policy it was expressed that the young state needed to solve a two-uniform problem: creation of a new statehood and conduction wide-scale political and economic reforms.

Uzbekistan developed its unique model of the reforms – the "Uzbek model", the theoretical basis of which are the generally recognized five principles put forward by the President of the country of I.A. Karimov:

- priority of economy over policy;
- rule of law;
- predominating role of the state in implementation of reforms;
- strong social policy;
- stage-by-stage transition to market economy.

1. *Priority of economy over policy*. The economy and policy don't function separately. They are inseparably linked with each other and make two sides of a whole.

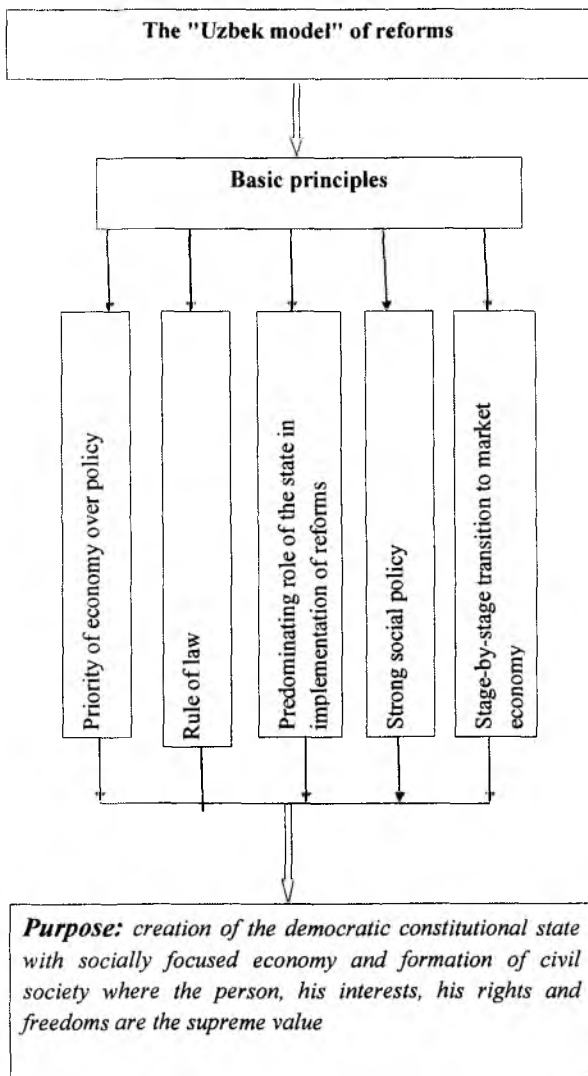


Fig. 8.1. The «Uzbek model» of reforms

They are inseparably linked with each other and make two parties of a whole. In this interrelation the priority is given to the economy, as a primary link of the uniform system. It doesn't mean minority of policy. The economic policy is urged to strengthen the economy, to define strategy of its development. The unreasoned, unreasonable, wrong economic policy can make non-reparable strike on the economy, to lead the economy to a failure and to failure of an ultimate goal. The economy and policy, in unity and in a full consent, have to move in the direction to the main social goal – increases of the living standard of the population and its social security.

2. *Rule of law.* At the very beginning of a transition period it is necessary to lay the legal foundation of future socially oriented economy. First of all, the transition period itself has to lean on a legal basis. Only in a constitutional state is provided the achievement of notable results of economic and social transformations.

3. *Predominating role of the state in implementation of reforms.* The transition period from one social and economic system to another is full of contradictions, difficulties. Their overcoming demands an existence of strong public administration. It is the state that acts as the initiator of all reforms. It defines the priority directions of economic development, develops and realizes policy of far reaching changes in social economic and political life of the country. The state in a transition period acts as the main reformer. This factor doesn't allow chaotic development of processes of transformation of one social economic system into another, gives to this process focus and sequence.

4. *Strong social policy.* Transition to the market relations in Uzbekistan, with its demographic features and the collected complex social problems, demanded implementation of strong social protection of the population. To Uzbekistan, in inheritance from the former system, there left the extremely low living standard of the population, especially in rural areas. To this phenomenon there still put on a problem of unemployment which became aggravated in connection with an economic crisis.

Closing of many large enterprises of all-union value, the termination of deliveries and orders from other regions of the former union, led to the termination or to sharp reduction of activity of a significant amount of the enterprises that led to an increase in the number of the unemployed. Lack of work, certainly, reduces a source of the income and the circle of poor families extends.

Transition to the market relations, under the influence of supply and demand, leads to a sharp rise in prices for goods and services. The entry of the country into the world market of resources demands the adaptation of the prices of domestic market to the international level. Introduction of a market mechanism of pricing, at the low income of families, demands creation of the strong and effective mechanism of social protection and social guarantees. Only in this case ensuring dynamic advance to market economy and preservation of public political stability in the country is possible.

5. *Stage-by-stage transition to market economy.* Experience of transition to market economy in a number of the countries by the "shock therapy" method wasn't suitable for Uzbekistan. Introduction of market mechanisms for short terms could deepen even more the accumulated social problems and lead to a landslide impoverishment of the population. Only gradual transition to the market relations serves one of the leading principles. It defines all internal logic, dynamism and character of economic reforms.

The stage-by stage character to the market relations was also caused by that for such a country as Uzbekistan it was required time for creation of the corresponding legal base, market structure, implementation of deep reforms in the field of property, agrarian relations, in the social sphere. The phasing of transition to the market was required for formation of new economic thinking, market psychology, the adaptation to market situations. It was necessary to solve a problem of training of new generation, experts, capable to work in market conditions.

Planned and market economy are two, absolutely not compatible economic systems. Owing to this fact it was impossible to transform the planned economy to

the market quickly. This transition is not modernization or improvement of the existing economic mechanism, but creation of essentially new one, transition from one qualitative state to another.

The concrete originality of the process of market transformation in Uzbekistan was predetermined by the following social and economic features of the country:

- complicated demographic situation and low standard of living of the population, especially in rural areas;
- mainly raw orientation of the structure of economy; imperfection of the structure of foreign economic relations;
- insufficient economic opportunities of carrying out macroeconomic policy;
- preservation of a monopoly position of the large enterprises in manufacturing of main types of production;
- lack of enough subjects of the market relations;
- deterioration of the ecological situation in certain regions of the republic;
- backwardness of the market infrastructure and insufficient economic and legal preparation of the population.

First of all the legal base of reforms carried out in the country was created:

- legal bases of the state independence;
- legal base under the new economic relations, first of all, the property relations;
- the acts providing constitutional rights of the person, social guarantees and social support.

Thus, the support on fundamental provisions and norms of the Constitution of the Republic of Uzbekistan accepted in December, 1992 which has defined the main principles of democratic development and formation of civil society in the country had absolute importance. The country's constitution fixed:

- state independence, state sovereignty;
- defined forms of a social and political system;
- provided equality of all forms of ownership;



- approved the priority of universal values, civil society and forms of its self-government;

- fixed basic rights, freedoms and duties of the person and the citizen.

The principle of strong social policy proclaims that creation of the conditions providing worthy life and free development of the person, in the conditions of the democratic constitutional state, isn't a private matter of the person, but is brought to the level of nation-wide policy.

Uzbekistan is the state of social justice. In this regard, the state as the main reformer socially supports the citizens unsuitable to work, disabled people, orphans, large families. In conditions of transition to the civilized market the state itself chooses the main activities promoting a basic change of society. Carrying out this work, the state first of all cares of the most essential interests of the people.

Each socially fair society and the state are determined by how it treats socially vulnerable segments of the population. The state and society is obliged to take the citizen under own protection, having provided him/her with legal and economic conditions for work. Strong social policy also is the main criterion of fair civil society and democratic constitutional state. Concentration of attention on the prime solution of problems of improvement of economy, respecting the rule of law and legal order, evolutionary transformation of the conservative economic relations to the market ones under an active reformatory role of the state, creates a strong basis of social stability.

*The first stage* of a transition period in Uzbekistan covered the period from 1991 to the middle of the 90th of the XX century. The main result of the economic reforms which have been carried out at the first stage should be considered the development and implementation of own model of strategy and reforms. During this period as strategic objectives were determined:

- stage-by-stage formation of socially focused market economy, creation of the powerful and dynamically developing economic system, providing growth of national wealth, worthy living conditions and activity of people;

- creation of multistructure economy, overcoming of alienation of the person from property, ensuring the state protection of a private property as bases of every possible development of an initiative and enterprise;
- providing broad economic freedoms to the enterprises and citizens, refusal of direct intervention of the state in their economic activity, eradication of command and administrative methods of management over economy, wide use of economic levers and incentives;
- formation of new economic thinking in people, change of their outlook, granting opportunity to each person independently to define the sphere and work appendix forms.

The concept of social economy proceeds from need of increase of national well-being, prevention of growth of poverty. The first stage of the transition period is characterized by liberal policy in the field of formation of income, i.e. control over the monetary income of population was weak. During this period the specific weight of subsidies in the cumulative income of the population was considerable. Expansion of household plots of citizens promoted formation of new sources of the natural income. In particular, it was promoted by provision of household plots of considerable part of the population.

At the same time, decline in production in Uzbekistan, which lasted throughout all the first half of the 90-s, provoked decrease in employment, and attempts to prevent them by state subsidizing of enterprises turned back high inflation that lowered the real income of the population even more. Deficiency of budgetary funds sharply narrowed possibilities of medical care of the population, led to reduction of admittance of students in the higher and secondary special educational institutions.

The crisis phenomena in economy and other spheres were negatively reflected in human development: poverty scales, incidence of the population increased, growth of average life expectancy stopped, the number of students and quality of their training decreased, outflow from the republic of the qualified experts and etc. was outlined. At the same time, thanks to the state policy of social

support of the population, the scale of these negative consequences was much smaller in comparison with other CIS countries, as well as depth of recession of GDP.

Education and health, remained from former system was unprepared to the country's transition to market system of managing. However it was impossible to begin their transformation right after acquiring independence: there was required a certain period of time to comprehend current situation, to reveal problems, to define versions of their solution, to develop models of systemic reforms with corresponding legal base.

For this reason the first period for education systems and health care was some kind of preparatory stage. Nevertheless, at this stage efforts on partial reforming of both systems were undertaken. In particular, in the education system the Law of the Republic of Uzbekistan "On education" was adopted, the state educational standards were developed, new curricula, programs, textbooks, system of testing of knowledge of entrants of higher education institutions were introduced, and a number of other important measures were carried out.

If to consider that in Uzbekistan about 35,0% of the population are children aged under 16 years, over 62,0% – youth aged under 30 years, the role and the importance of these reforms become clear and obvious.

Certain innovations were also realized in health system where, as well as in the system of education the principles of diversification of income, cost accounting, availability at a price of provided services began to take root. At the same time, the measures taken in both systems couldn't improve significantly human development, first of all because of considerable deterioration of their public financing owing to the crisis phenomena in economy.

*At the second stage* of reforms (the middle of the 1990-s – the beginning of the XXI century) essential transformations in the areas of social protection of the population and its address orientation were realized.

This period was the initial stage of formation and implementation of new national policy of personnel training, creation of legal, personnel, scientific and

methodical and financial and material conditions for education system reforming on the basis of available potential.

The most important ideas of the National program accepted at the very beginning of this stage on training were continuous education of the person, from preschool to a retirement age, obligatory and free of charge 9 years' education, introduction of the system of 3 years' free general compulsory secondary vocational professional education of graduates of the 9th classes of comprehensive schools, introduction of two-level system of higher education.

In Uzbekistan huge work by scales and depth has been done on cardinal updating and reforming of education. The complete continuous system of educational process, including all cycle of preparation of highly educated and professionally prepared generation from the general secondary to secondary vocational, professional and higher education has been created.

In the first years of independence, from 8,3 thousand of schools 3525 available in Uzbekistan took place in adapted buildings. For the last period about 9,5 thousand schools, or practically all those operating in the country have been constructed again, capitally reconstructed and equipped with modern educational laboratory equipment, cardinal measures for high-quality and methodical updating of educational process have been carried out.

**Table 8.1**

**Results of implementation of the State nation-wide program of development of the school program in Uzbekistan**

<b>Indicators</b>	<b>2007/2008 academic year</b>	<b>2009/2010 academic year</b>	<b>2011/2012 academic year</b>	<b>2012/2013 academic year</b>
Number of schools	9773	9791	9806	9765
Including: - elementary schools	170	89	90	68
- high comprehensive schools	9603	9613	9628	9536
Number of schoolchildren, thous.	5687,8	4909,1	4695,3	4468,1
Number of teachers of comprehensive schools, thous.	450,3	437,6	426,6	410,6

In Uzbekistan there function over 1500 academic lyceums and professional colleges. Only in 2013 construction of 28 new professional colleges was carried out, reconstruction and capital repairs of 131 professional colleges and academic lyceums, 381 comprehensive schools, 45 objects of system of higher educational institutions were carried out. 55 children's schools of music and art, 112 objects of children's sports and 4 swimming pools were handed over. All of them are equipped with the necessary equipment and inventory. The modern educational and laboratory, computer and production equipment which colleges are equipped with, allows pupils not only to receive the full volume of knowledge on the general subjects, but also to master in educational institution modern equipment and technology.

Carrying out large-scale work on check of full coverage of graduates of the 9<sup>th</sup> classes of comprehensive schools with training in professional colleges, in particular the girls living in rural areas, remote settlements played important role. Practically from 2012/2013 academic years, transition to 12-year compulsory education has completely been provided in the country.

Special attention is paid to employment of graduates of professional colleges. The major direction and key to the solution of this task was the use of various forms of cooperation of professional colleges with enterprises – employers, attraction of the public from districts and the cities to this problem. As a result of the carried-out measures in 2013 more than 500 thousand graduates of professional colleges were employed, thus 43 percent of graduates were employed at the enterprises where they passed work practice. To graduates of the colleges, who decided to be engaged in own business, over UZS 140 billion preferential microcredits were provided.

In the education system the great value is attached to pupils' possessing not only broad knowledge and professional skills, but also obligatory learning of foreign languages as the most important condition of active communication with their contemporaries from foreign countries, wide knowledge of all of that occurs in the modern world, mastering huge world intellectual wealth.

For cardinal improvement of system of training of younger generation to foreign languages, the training of specialists masterfully possessing them, by introduction of the advanced methods of teaching with use of modern pedagogical and information and communication technologies and on this basis, creation of conditions and opportunities for their broad access to achievements of the world civilization and world information resources, development of the international cooperation and communication in the republic since 2013-2014 academic years learning of foreign languages, mainly English, step by step in all territory of the republic begins with the first classes of comprehensive schools in the form of game lessons and lessons of informal conversation, and from the second class – with assimilation of the alphabet, reading and grammar. And teaching in higher educational institutions of separate special subjects, especially on technical and international specialties, will be conducted in foreign languages<sup>1</sup>.

At all comprehensive schools over 17 thousand educational offices on training in foreign languages have been created. For pupils of the 1<sup>st</sup> classes more than 538 thousand colorful textbooks on a foreign language with multimedia applications have been published. Multimedia textbooks on English, German and French languages for 5-9 classes of comprehensive schools, electronic resources on English studying in initial classes have been created, over 5 thousand language laboratories at comprehensive schools, professional colleges and the academic lyceums have been equipped. On republican television special children's informative channels with game programs for training in foreign languages are transferred.

About 2 thousand teachers of the foreign languages whose total number reached 26 thousand have been prepared. For creation of equal conditions of training in foreign languages in all regions of the republic, attraction of highly skilled teachers of English into rural areas, the system of their material stimulation has been entered with establishment of a 30 percent extra charge to tariff rates.

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<sup>1</sup> The Resolution of the President of the Republic of Uzbekistan dated December 10, 2012 "On measures to further improve system of foreign languages teaching" // [http:// www.lex.uz](http://www.lex.uz).

Presently, all educational, scientific and cultural and educational institutions of the country are connected to the educational portal and Internet. It allows to introduce in educational process the methods of distance learning, a wide complex of information and communication services for the studying youth.

The Program for development of higher educational institutions for 2011-2015 has been accepted. The most important purpose of the Program – further strengthening of material base and equipment of the higher school with the modern educational, laboratory and scientific equipment, finally – improvement of training programs, realization of qualitatively new approaches in the training, meeting the increased requirements of time.

Since January 1, 2013 in Uzbekistan the new system of postgraduate education, preparation and protection of doctoral dissertations, assignments of a scientific degree and academic statuses has been entered. Scientific councils will be mainly created at leading higher education institutions which have to become not only a smithy of personnel of top skills, but also the centers of carrying out scientific researches.

The structure and the Regulation on the Highest Certification Commission were cardinally reconsidered at the Cabinet of Ministers of Ministers the Republic of Uzbekistan. Since January 1, 2013 in the country the rating system of an assessment of activity of higher educational institutions has been entered. Functions on drawing up a rating are assigned to the State testing center under the Cabinet of Ministers which will present to the Government annual analytical reports on the condition of development of the higher education in the republic.

When forming criteria by which higher education institutions will be estimated, the main attention is paid to the index of the level of quality of teaching and scientific capacity of higher education institutions on which the highest points – by 35,0% are exposed, and also to the index of qualification of students and the graduates, defined on the basis of results of poll of employers – 20,0%. Other 10,0% are allocated for other indicators.

Introduction of the rating system, will undoubtedly strengthen healthy competition and competitiveness between higher education institutions, and also opportunity to allow to estimate weak areas and reserves in this sphere, to develop specific proposals on further increase of level and quality of training of highly qualified specialists.

Work on further reforming and development health care system is consistently and purposefully carried out. They are urged to provide strengthening material technical base of medical institutions with the latest diagnostic equipment. A decisive step was taken in the assessment of the condition of health care towards quality indicators, thus, achieving increase in life expectancy of the population, sharp reduction of maternal mortality, decrease in infectious and other widespread diseases.

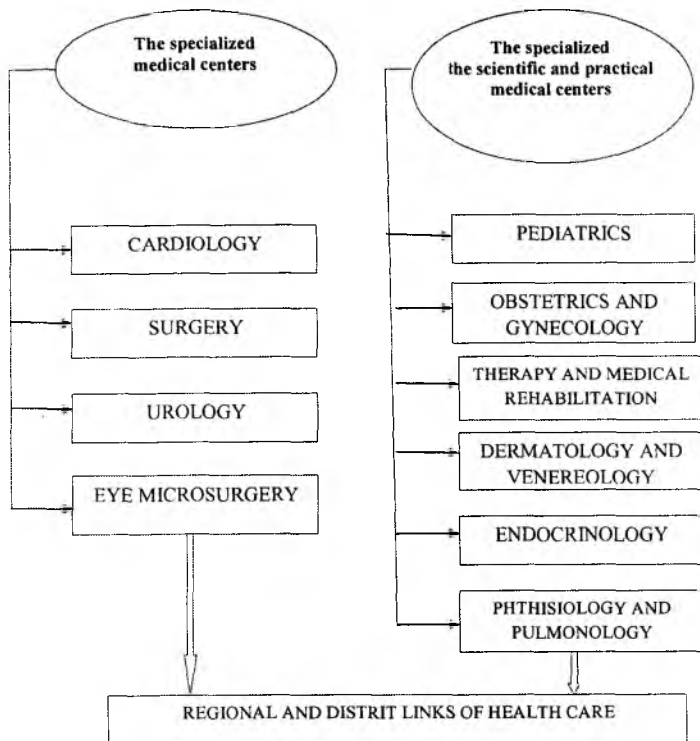
The state program of reforming of the health care, accepted in 1998, provided radical reorganization of all health system, transition from high spending and not always the effective stationary help to the priority of out-patient and polyclinic and preventive medicine, including in rural areas – through the rural medical points created instead of low effective medical assistants and obstetric points.

In health care of Uzbekistan 1998-2002 were a stage at which the paramount attention was paid to creation of conditions for the birth and education of healthy generation, creation in primary link of health care of rural medical points, to development of paid and private medical service, concentration of budgetary funds of the branch on out-patient and polyclinic treatment, incidence prevention, universal formation of mobile emergency medical care to the population.

In 2001 in Uzbekistan the complete system of rendering medical care equipped by the last word of medical science at critical and urgent situations was created.

In health care reforming the main attention was paid to stage-by-stage creation of the hi-tech specialized medical centers in the country, capable to render to the population high-quality medical services (Fig. 8.2).





**Fig. 8.2. System of the organization of specialized medical care in Uzbekistan**

For further strengthening of material base of healthcare institutions the functioning Fund of reconstruction, capital repairs and equipment of educational institutions was transformed to the Fund of reconstruction, capital repairs and equipment of educational and medical institutions.

Only in 2013 investment volume in health care grew by 3,8 times in comparison with 2010. As a result there were reconstructed and put in operation 295 medical objects. Level of equipment of the republican specialized medical centers increased by 1,8 times and makes 91,7%, including on the hi-tech equipment – 82,6%.

Opening of the heart surgery section in the Republican specialized center of surgery, equipped with the modern hi-tech medical equipment, allowing to carry out diagnostics and treatment of patients with cardiovascular pathology at the level of the international standards became an important event.

In system of measures for further deepening of reforming of health care of the country in 2013, transition of system of primary medical and sanitary help to the principles of family medicine that allowed to provide availability of the qualified medical care for 14,6 million people living in rural areas, especially in the remote areas became the major step. It allowed to lower level of hospitalization of patients from 12,5% in 2009 to 10,8% in 2013.

General coverage with medical examination of women of fertility age, children and teenagers was provided. For 2011-2013 over 535 thousand pregnant women were surveyed for identification of hereditary and congenital diseases that gave the chance to prevent the birth of about 2,7 thousand children with congenital anomalies and developmental anomalies only in 2013. As a whole implementation of the "Screening of Mother and Child Program" provided reduction of birth rate of children with congenital developmental anomalies in comparison with 2000 by 1,8 times.

It should be noted that the Uzbek model of providing reproductive health is recommended by the UN as the best regional program for countries of Eastern Europe, Baltic and the CIS.

Health strengthening, undoubtedly, is promoted by sports development, first of all children's sports. Now about 1,6 million children aged from 6 to 15 years are regularly engaged in different types of sports, or 35,6 percent from total number of children. Such modern football stadiums as "Bunyodkor" and "Locomotive" meeting the international standards in Tashkent, "Metallurgist" in the city of Bekabad were constructed. The specialized school of the Olympic reserve on wrestling was created.

Innovations in education systems and health care had positive impact on indicators of human development of Uzbekistan. The effect of this influence

strengthened results of economic progress of the last years when thanks to high dynamics of GDP growth, firstly, possibilities of the budgetary financing of the public medical and educational institutions increased, and secondly, the real income of the population and its ability independently to pay services of these establishments raised.

In Uzbekistan programs for improvement of protection of mother and the child, improvement of value of food and prevention of infectious diseases are consistently carried out.

## **8.2. Reforming economy and its influence on human development**

The variety of models of market economy and reforms which are their cornerstone, is caused also by degree of combination of the free market competition with state regulation of economy, their social orientation, a priority of solved macroeconomic problems. For example, in the "American" model the role of free market regulators is strong, and in "Japanese" and "French" models the state participation in the organization of economic activity is considerable. The "German" and "Swedish" models have the greatest social focus.

Formation of national model of economic reforms in Uzbekistan relied on the following major basic provisions:

- *social orientation to achievement of the end result providing growth of welfare of people;*
- *the interconnected solution of problems of stabilization of economy, macroeconomic growth and optimum employment of able-bodied population;*
- *economic regulation on the basis of use of the market mechanism providing orientation of behavior of all economic entities on search of ways of achievement of the greatest production efficiency;*
- *withdrawal from direct public administration of production, providing freedom to producers to define, proceeding from economic feasibility, kinds of activity, volume of made production, a circle of production and economic communications;*

- preservation of an active role of the state in a choice of priorities of investment policy and attraction of the foreign capital, in regulation of economy by means of introduction of "frame conditions", use of economic levers and incentives, providing reliable social guarantees;

- carrying out of strong social policy at all stages of formation of the market relations, directed, first of all, towards protection of socially vulnerable segments of the population – children, pensioners, disabled people, studying youth.

Civil, Land, Tax and Customs Codes, as well as more than 400 laws in total, such as "On denationalization and privatization", "On banks and banking activity", "On foreign investments", "On guarantees and measures of protection of the rights of foreign investors", "On guarantees of freedom of entrepreneurship activity", "On private enterprise", "On currency regulation", "On foreign economic activity", "On farming enterprise" and others became the strong legal base of liberalization and modernization of economy, the guarantor of irreversibility of carried-out market reforms.

In economic policy of the state the following purposes were defined as the priority:

- achievement of economic independence due to self-sufficiency of the country with the major vital production, first of all energy carriers, food grain;

- reorientation of the economy from ineffective production of raw materials on its much more profitable deep, full processing and release on this basis competitive in internal and external commodity markets with a high value added;

- every possible growth of an export potential of the country in interests of increase in gold and foreign exchange reserves and achievements of stability of national currency.

Taking into account the considerable scales of the hidden unemployment and a low-advantaged population inherited to Uzbekistan, as priorities were defined expansion of opportunities of employment of able-bodied population and increase of the living standards as well.

In the development of national economy it is possible to allocate some stages.

*The first stage (1991-1993)* was characterized, on the one hand, by a combination of toughening fiscal, monetary policy, on the other hand - limited privatization of household plots on favorable terms, of the state housing, small enterprises of trade, public catering, consumer services and other commercial and production purposes.

Measures on toughening of fiscal and monetary policy were directed towards maintenance of expenses on social needs, in particular taxation, sufficient for prevention of sharp decrease in the living standard of the population, financing of education systems, health care, social security of the most vulnerable segments of the population, and also towards the purposes connected with creation and strengthening of acquired statehood, in particular, of law, order and safety of the country.

As for the carried-out privatization, it was urged to lay the foundation of development of small business, private business and, at the same time to allocate citizens of the country with property, assets of which they could dispose at discretion. It in a certain measure softened negative consequences of the occurred in this period notable decrease in outputs, the terminations of financial receipts from the outside, considerable falling of the living standard of the bulk of the population, loss of feeling of stability, security, confidence in tomorrow by many people.

At this stage, one of the main reasons for delay of economic growth served the imperfect structure of economy inherited from the former union. It was expressed in the following:

- orientation mainly on production and export of raw materials and semi-finished products;
- dependence of economy on agriculture development, so and on weather and climatic factors;
- dependence of economy on delivery of fuel and energy resources, the main food – grains, meat and dairy products, potatoes, sugar, etc.;
- low specific weight of finished products in total production;

- low technological level of production;
- release of noncompetitive production because of prevalence of the outdated production device, equipment.

*At the second stage* of the transition period (1994-1996) the government carried out important measures for development of small and for formation of the mechanism of implementation of more large-scale privatization, stimulation of private business, liberalization of system of state orders for agricultural products, the foreign trade mode and for reforming of the banking system. The effect of these measures was shown yet by the end of the period under review when in 1996 Uzbekistan in the former Soviet Union space showed the first growth of economy and, thereby, correctness of the chosen way of gradualness, stage-by-stage character of its reforming.

For the years of market reforms in Uzbekistan about 31,0 thousand state enterprises and objects were privatized and transformed, depending on their importance for national economy and scales, in joint-stock companies (21,5%) and private enterprises (78,5%).

As a result of privatization of the state property and stimulation of development of small business there was a social group of society new to Uzbekistan – a class of owners – numbering about 6,5 million people, including: 1,4 million shareholders, 80,6 thousand owners of private farms, 4,8 million owners of Dekhkan farms, and also owners of other forms of property (private enterprises, shares in authorized capitals of LLC, etc.).

Positive changes happened on some other directions of social and economic development of the republic. If in 1995 the rate of inflation in comparison with previous year decreased more than twice, in 1996 - five times, having become two-digit, instead of three-digit as it took place in 1992 - 1995. Noticeably decreased budget deficit - in 1994, it made 3,5% to gross domestic product, in 1995 - 2,9%, in 1996 - 1,9% that several times conceded to the level of 1992 when deficiency exceeded 10,0 percentage size.

*The third stage* of the transition period covering 1997-1999, was marked by the moderate growth of economic activity which developed under the influence of multidirectional factors. On the one hand, positive impact on it was made by stimulation of activity of small business, private business, reorganization of branch structure of the industry in the direction of development of import-substituting, hi tech productions and other measures of the government of Uzbekistan on development of the economy.

On the other hand, negative influence on dynamics of growth and efficiency of national economy rendered unforeseen factors: low collection of cotton in 1998-1999 - the main article of export, adverse conditions of the world prices for it, Asian financial crisis, a ruble collapse in August, 1998 and business recession in Russia - the largest foreign trade partner of the republic.

The undertaken in response to the action of these factors protective measures expressed in introduction of rigid restrictions on converting of national currency, sharp increase of import tariffs and establishment of a number of non-tariff restrictions, provided maintenance of gold and foreign exchange reserves at sufficient level for the external economic safety.

In 2000 - the first year of the *fourth stage* of the transition period which has come to the end in 2003 - the government of Uzbekistan started large-scale liberalization of internal and foreign economic activity. Maintenance of macroeconomic stability, further privatization of state ownership, full support of small, private business and a number of other important factors promoting progress of national economy, contributed to the maintenance of stable dynamics of its growth, smaller, than in the previous period, rates of inflation which, besides, throughout the entire period were decreasing.

The effect of this decision was fully shown at *the fifth stage* of the transition period which has begun in 2004. The considered stage is characterized by high - seven and more percentage - dynamics of GDP growth, single-valued (unlike two-digit at the previous stage) growth rates of inflation, higher level of gross savings, transition from the minimum deficiency (-0,4% to gross domestic product in 2004)

to surplus (0,5%) state budget and a number of other positive changes both in dynamics and as economic development.

The internal factors caused by deepening of reforms in all spheres of managing and administration, rationalization of branch structure of economy, first of all the industry, purposeful policy of the government on formation in the country of the most favorable business and investment environment for business became the main reasons of these changes.

Realization of the "Uzbek model" of reforms provided stable high rates of economic growth, allowed to carry out modernization of primary branches of the industry and large-scale restructuring of production, to reach corresponding increase of efficiency in agriculture, to provide steadily positive balance of the current account balance, the corresponding increase of welfare of the population of the republic (tab. 8.2).

**Table 8.2**  
**The main macroeconomic indicators of the Republic of Uzbekistan (in % to previous year)<sup>1</sup>**

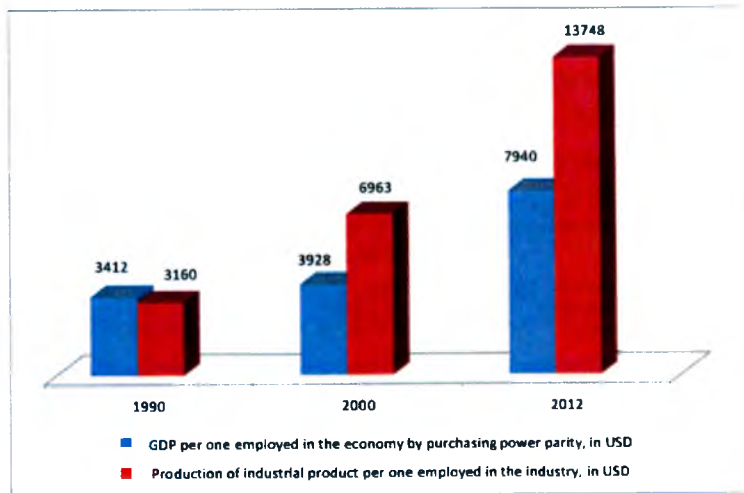
<b>Indicators</b>	<b>2003</b>	<b>2005</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Gross domestic product	104,2	107,0	108,5	108,3	108,2	108,0
Industrial output	106,0	107,2	108,5	106,4	107,9	108,8
Production of consumer goods	108,5	116,6	112,4	111,1	107,8	114,4
Agriculture production	107,3	105,4	106,9	106,6	107,0	106,8
Investments into fixed capital	104,8	105,7	108,7	103,8	112,7	111,3
Construction	103,7	110,7	105,1	107,8	113,7	116,6

The state budget is annually executed with surplus. So in 2013 surplus of the state budget to gross domestic product made 0,3%, so that tax burden on economy was lowered from 21,5% to 20,5%, and the minimum rate of the tax on the income of individuals was reduced from 9,0% to 8,0%. The rate of inflation was lower than expected one and made 6,8%.

<sup>1</sup> Statistical year-book of the Republic of Uzbekistan. – T. :The State Committee of Statistics of the Republic of Uzbekistan, 2013. – p.32.



The important qualitative indicator characterizing intensive growth of economy is the gross domestic product (GDP) per one employed in the economy. If in 1990 per one employed in the economy there was equivalent of 3412 dollars of produced gross domestic product, in 2012 this indicator increased by 2,3 times. Implementation of priority projects of modernization, technical and technological updating and cardinal increase of competitiveness of key branches of the industry created necessary conditions for dynamic increase in manufacture of products of the industry counting on one employed in this branch by 4,4 times (Fig. 8.3).



**Fig. 8.3. Productions of GDP and industrial output per one employed**

Social reorientation of the economy of Uzbekistan is connected with need in the shortest terms to saturate domestic market with consumer goods, to completely satisfy needs of the population for household and cultural services, to achieve basic changes in providing the population with housing and objects of social infrastructure. The solution of this large national task is impossible without profound structural changes, without modernization of economy and, first of all, its structure.

Long-term strategic objectives of economic development of the country put forward as the main priority the continuation of the policy of structural transformations begun from the first day of independence and advancing development of high-tech modern industries and the productions, the competitiveness directed towards increase and strengthening of positions of Uzbekistan in the world markets. It is a question of the perspective branches of economy providing diversification of production and release of hi-tech production with a high value added on the basis of rational use of rich sources of raw materials and resources available in the country.

For achievement of these purposes there has been approved the Program "On Priorities of Development of the Industry of Uzbekistan in 2011-2015" which provides realization of over 500 large investment projects in the industry in the total cost of about 50,0 bln. US dollars. The task is set to provide in the next five years growth rates of production of an industrial output not less than 60,0%, to increase its share in gross domestic product structure – from 24,0% in 2010 to 28,0% in 2015.

Advancing development with growth of more than twice will be gained by such branches, as mechanical engineering and automobile industry, chemical, food, pharmaceutical industry, the industry of construction materials and others.

In the textile industry the priority development will reach new modern textile complexes with the finished cycle of production of competitive export production. It will provide an increase in volumes of internal processing of cotton-fiber more than twice, productions of a yarn – by 2,6 times, ready knitted and garments – by 3 times, export of production of the textile industry – by twice.

Only in 2014 it is planned to put into operation more than 150 large production objects in the total cost of construction 4,4 billion dollars. As a whole this year will become the year of input in a system of the major hi-tech and modern objects and capacities in the industry, growth and improvement of investment process.

For attraction of strategic foreign investors in Uzbekistan the unique system of guarantees, both for investors, and for the enterprises with foreign investments has been created. So, the state guarantees all rights of foreign investors, protection of their investments, inviolability of the property created by them in the territory of the country, consecutive work is conducted on expansion and liberalization of provided privileges and preferences.

By the law of the Republic of Uzbekistan "On guarantees and measures of protection of foreign investors' rights " it is established that in case of change of standards of the legislation worsening conditions of investment, to foreign investors within ten years the legislation existing for date of investment shall be applied. Moreover, in case of acceptance by state bodies or public authorities on places of the regulations infringing upon the rights of investors, and also in cases of illegal intervention in their activity, the caused damages are paid by these bodies in a judicial order.

Foreign investments and other assets of foreign investors aren't subject to nationalization.

There are no restrictions in the conditions of reinvestment in the territory of the country of gained income of the foreign investor – they can be used in any way at the discretion of the foreign investor.

Extremely important role in Uzbekistan is played by small business and private entrepreneurship in formation of modern structure of the economy providing satisfaction of rapidly changing demand, creation of new workplaces and growth of the income of the population.

As shows the world experience, small business, being the most important structure-forming sector of economy, is the main source of filling of domestic market with necessary goods and services. Small business not only fills certain niches in economy, but also plays an extremely important role in its diversification and ensuring steady rates of its development.

Small business being compact in its form, possessing mobility and efficiency in decision-making, being susceptible to innovations, can more flexibly and more

rapidly adapt to changes of demand, an environment in the world and regional markets, in due time reacts to its calls.

At the same time creation and conducting of small business doesn't demand big expenses and capital investments that allow to carry out modernization, technical and technological re-equipment of production more rapidly and more easily, to master new types of production, to update constantly its nomenclature and to provide competitiveness.

Besides, stability of this sphere in comparison with the large enterprises to calls and consequences of world financial and economic crisis is higher. Only thanks to the accelerated development and a dominant position of small business and private business in Uzbekistan it was possible less painfully, with smaller losses to cope with negative consequences of the crisis of 2008-2009, to reconstruct production in short terms taking into account a changing environment of the world market.

Therefore in Uzbekistan the paramount attention is paid to development of small business and private entrepreneurship. For 2000-2013 in the country the number of the registered small and private subjects of entrepreneurship increased more than twice. Only in 2013 over 26 thousand subjects of small business opened own business, and the total of the operating enterprises of this sector made over 190 thousand. The number of operating subjects of small business per 1000 people of the population of Uzbekistan comprises 15,4 units. It considerably exceeds similar indicators of the states of the CIS (Fig. 8.4).

Since January 1, 2013 for subjects of small business by uniform tax payment this privilege is also extended at introduction of quality control systems, carrying out certification of production on compliance to the international standards, acquisition of complexes for carrying out laboratory tests and trials. Thus, reduction of taxable base is made within five years since the tax period in which the above-named expenses are carried out.

On the basis of the Resolution of the President of the Republic of Uzbekistan dated July 29, 2011 No. PP-1590 "About measures on the further deepening of

localization of manufacture of the finished goods, complementary parts and materials on the basis of industrial cooperation for 2011-2013" at inclusion of subjects of small business in the localization Program they are exempted from uniform tax payment.



**Fig. 8.4. Number of operating subjects of small entrepreneurship per 1000 people of the population<sup>1</sup>**

For managing subjects of small business the rate of uniform tax payment regularly decreases: in 2009 - from 8,0 to 7,0%, and since 2011 - to 6,0%. Since 2013 the rate of uniform tax payment for microfirms and small enterprises in the industrial sphere makes 5,0%. These measures allow small business to save huge amounts of money. They are often directed by businessmen towards the development of the business, towards modernization and technological updating of production and towards material stimulation of workers.

Since January 1, 2013 for subjects of small business on uniform tax payment this privilege is also extended at introduction of quality control systems, carrying out certification of production on compliance to the international standards.

<sup>1</sup> Data of the Statistical Committee of the Commonwealth of Independent States/[http:// www.cisstat.org](http://www.cisstat.org)

acquisition of complexes for carrying out laboratory tests and trials. Thus, reduction of taxable base is made within five years since the tax period in which the above-named expenses are carried out.

The mechanisms promoting increase in volumes of crediting of subjects of small business, and also attraction and direction towards development of sector of foreign investments, first of all soft loans of the international financial institutions and direct investments are improved. Especially ample opportunities are created for development of small business and private entrepreneurship in industries, introduction in production by subjects of small business and private entrepreneurship of innovative technologies are stimulated. The Resolution of the President of the Republic of Uzbekistan from 2011 "On additional measures for increase in crediting of subjects of small business and private entrepreneurship" is directed to it as well.

In Uzbekistan there has been adopted the "Program of the priority directions of further reforming and increase of stability of the financial banking system of the republic in 2011-2015 and achievement of high international rating indicators". It provides expansion during 2011-2015 of volumes of crediting of subjects of small business and private entrepreneurship by 2,7 times, and volumes of issuance of the microcredits by commercial banks and rendering microfinancial services by the non-bank credit organizations - by 2,8 times.

From April 1, 2011 to January 1, 2016 commercial banks of Uzbekistan when granting credits at the expense of own special funds of preferential financing of small business are exempted from profit tax payment in the part of granting soft loans. The resources of the Fund will be mainly allocated for financing of hi-tech and innovative projects in the sphere of small business and private entrepreneurship, industrial microfirms, small enterprises, Dekhkan and farming enterprises located in remote and low-accessible areas, as well as in districts and cities with excess manpower.

Only in in 2013 the volume of the credits which have been given out to subjects of small business and private entrepreneurship, increased by 1,3 times and

by the beginning of 2014 made UZS 6,9 trillion, including the volume of the microcredits increased by 1,3 times and made UZS 1,4 trillion (Fig. 8.5)



**Fig. 8.5. Dynamics of growth of volume of the credits, allocated to small business and entrepreneurship (million soums)<sup>1</sup>**

The government of Uzbekistan pays special attention to creation of organizational, legal, financial mechanisms for development of an export potential of small business. For example, for small enterprises at which the share of export of goods, works, services of own production for hard currency, except for raw materials, comprises from 15,0 to 30,0% in a total amount of sales, the established tax rate decreases by 30,0%, if 30,0% and above in a total amount of sales, the established rate decreases by 50,0%.

For further expansion of an export potential of subjects of small business and private entrepreneurship by the Resolution of the President of the Republic of Uzbekistan dated August 8, 2013 No. PP-2022 under the National Bank of Foreign Economic Activity of the Republic of Uzbekistan there has also been created the Fund of support of export of subjects of small business and private entrepreneurship with territorial branches in republic's regions. Their main

<sup>1</sup> Data of the Central Bank of the Republic of Uzbekistan // <http://www.cbu.uz>

functions is rendering legal, financial and organizational assistance in advance of own production for export. For the short period of activity of the Fund there has been provided assistance to 153 subjects of business in the conclusion of export contracts for the sum over 56,0 million US dollars.

The fund carried out the system analysis of the range and the nomenclature of goods produced by more than 14,3 thousand small business enterprises and entrepreneurs, defined level of their competitiveness in foreign markets, created a database, developed offers on ensuring compliance of products to demand on world and the regional markets. Proceeding from the received results in 2014 over 1,6 thousand enterprises have opportunity to send the production for export.

For promotion of the production of subjects of small business and private entrepreneurship to foreign markets, the fund established cooperation with 57 foreign organizations.

Now the Fund of support of export of subjects of small business and private entrepreneurship intends to render assistance to more than 370 businessmen, having provided them legal, financial, organizational services on promotion of their production to foreign markets. The fund will promote also search of potential buyers, preparation and conclusion of contracts, maintenance of export operations, reliable protection of exporters against possible risks, and also receiving and payment of necessary licenses, certificates, other permissions and collecting demanded by the legislation of a certain country.

With the assistance of the fund the private sector of the country will be able to expand the participation in the foreign tender auctions, to come into contacts with foreign buyers at various fairs. It is thus supposed to sign export contracts for more than 580,0 million US dollars.

Thanks to these and other taken measures priority development of small business and private entrepreneurship has been provided. The main indicators of this sector of economy during 2000-2013 testify it (tab. 3.4):

- increase of the share in the gross national product from 31,0% in 2000 to 55,8% in 2013;



- growth of specific weight in industrial output from 12,9% in 2000 to 23,0% in 2013;

- improvement of branch structure of small business towards increase of the share of the small industrial enterprises. In 2013 subjects of small business made an industrial output for UZS 8742,7 billion, which more than 10 times exceeded the level of 2000;

- much increased export potential of small sector of economy. Share of small business and private entrepreneurship in the total amount of export increased from 10,2% in 2000 to 18,0% in 2013;

**Table 3.4**

**Dynamics of development of small business and private business in Uzbekistan (% from total amount)<sup>1</sup>**

<b>Share of small business and private entrepreneurship</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Gross domestic product	31,0	38,2	52,5	54,0	54,6	55,8
Industrial output	12,9	10,0	19,6	21,0	22,2	23,0
Export	10,2	6,0	13,6	18,8	15,8	18,0
In the total number of the employed population in economy	49,7	64,8	74,3	74,8	75,0	75,0

- increase in share of the number of the employed able-bodied population in small and private business in the total number of the employed population in economy from 49,7% in 2000 to 75,0% in 2013.

Small business is effective not only in the traditional consumer sphere, but also as the producer of separate knots and small mechanisms, semi-finished products and other elements necessary for production of finished products, release of which is unprofitable to the large enterprises.

It is especially pleasant that the number of subjects of small business and private entrepreneurship in the sphere of hi-tech and export-oriented productions

<sup>1</sup> Data of the State Committee of Statistics of the Republic of Uzbekistan // <http://www.stat.uz>.

based on deep processing and release of finished goods from local raw materials, capable to compete in the internal and external markets increases every year.

Small business and private business really became catalysts of national economy because their development directly influences on rates of economic growth, increase of the income and welfare of the population.

### **8.3. Investments in human capital**

Investments into the human capital have a number of features distinguishing them from other types of investments.

1. Return from investments into the human capital directly depends on the term of life of its carrier (from duration of the able-bodied period). The earlier the investments in the person, the quicker they start giving return. But it must be kept in mind that more qualitative and long investments bring higher and more long-term effect.

2. The human capital not only is subject to physical and moral depreciation, but also is capable to accumulate and be multiplied. Depreciation of the human capital is defined, first, by degree of natural depreciation (aging) of a human body and psychophysiological functions inherent to it, and secondly, by degree of moral (economic) depreciation owing to obsolescence of knowledge or change of value of the acquired education. Accumulation of the human capital is carried out in the course of periodic retraining of the worker and their accumulation of know-how. If this process is carried out continuously, in process of use of the human capital its qualitative and quantitative (quality, volume, value) characteristics improve and increase.

3. In process of accumulation of the human capital its profitability increases to a certain margin limited to the upper bound of active work (active able-bodied age), and then sharply decreases.

4. When forming the human capital "the mutual multiplying effect" takes place. Its essence is that in the course of training characteristics and abilities

improve and increase not only of the trainee, but also of the one who trains that leads subsequently to growth of earnings, both of the first, and the second.

5. Not any investments into the person can be recognized as investments in human capital, and only which are socially expedient and economically necessary. For example, the expenses connected with criminal activity, aren't investments into the human capital as they are socially inexpedient and harmful to society.

6. Character and types of investments in the person are caused by historical, national, cultural features and traditions. So, the education level and choice of profession by children considerably depend on family traditions and the education level of their parents.

7. In comparison with investments into other various forms of the capital an investments into the human capital are the most favorable both from the point of view of a certain person, and from the point of view of all society.

The researchers conducted by professor of Department of formation of the University of Pennsylvania (USA) by Robert Zemsky jointly with the economist Lisa Lynch from Business School of Fletcher at University Taffeta and professor of management from Wharton by Peter Cappelli (there were analysed more than three thousand hundred workplaces), showed that at ten-percentage increase of an education level total productivity increases by 8,6%. For comparison: at the same increase in fixed assets labor productivity increases by only 3,4%. In other words, the marginal profit from investments into the human capital almost three times exceeds the profit from capital investments in equipment<sup>1</sup>.

C. McConnell and S. Brue distinguish three types of investments into the human capital:

- expenses for education, including the general and special, formal and informal, preparation in a work place;
- expenses on the health care, forming of expenses on prevention of diseases, medical care, dietary food, improvement of living conditions;

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<sup>1</sup> Dobrynin A.I., Dyatlov S. A. , Tsyrenova E.D. Human capital in the transitive economy: formation, evaluation, efficiency. - SPb. : Nauka, 1999.

- expenses on mobility thanks to which workers migrate from places with rather low productivity to places with relatively high efficiency<sup>1</sup>.

Along with education, the most important are investments in health of the person. The economic value and the importance of health for accumulation of the human capital are unconditional. Low level of life expectancy in a country automatically includes the investment in health maintenance in number of priority expenses, which promotes human life extension, and, therefore, and time of functioning of the human capital.

The unsatisfactory state of health reduces labor productivity: physically weak and sick workers can't realize fully their human capital therefore an organization is economically interested in investments into health of the employees. In this regard, expenses of the organization on maintenance of a good physical condition of the employees are of particular importance: prevention of occupational diseases, providing dietary food for certain workers and (or) free food for all employees, medical care in a place of work and payment of permits to rest houses, treatment in medical institutions, dispensaries and sanatoria, improvement of living conditions, insurance of workers upon accidents.

Today it is topical to refer also expenses on fundamental scientific developments to the investment in human capital. In development of science there are created not only intellectual innovations on the basis of which then new production technologies and ways of consumption are formed, but also there is a transformation of people who act as carriers of new abilities and requirements. In information society the science turns into a peculiar generator of "the human capital".

The culture leaves the mark on the process of reproduction of the human capital, since without "spiritual food" harmonious development of the personality is impossible. In culture experience of generations concentrates, knowledge, abilities, skills are preserved. Cultural level of citizens substantially defines

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<sup>1</sup> McConnell C.R. Brue S. L. Economics: Principles, Problems and Policies / V.2. – M.: Respublika, 1992

economic achievements of society, its socio-political, ideological, educational and spiritual and moral structure.

There are various approaches to an assessment of efficiency of investments in the human capital. Jac Fitz-enz conducting researches, as the simplest calculations of return on investment in the human capital, divided the income into the number of employees<sup>1</sup>.

It was the first indicator which has appeared in the Report on efficiency of human resources in 1985. The return on investment coefficient in the human capital he offered:

*Return on investment coefficient in the human capital = [Profit - (Expenses - [Salaries + Preferences])]: Salaries + Preferences*

Investments into the education of a worker form his human capital and through certain time bring in (return) the income to the owner:

$$Y_n = X_0 + RC_n,$$

where  $Y_n$  - earnings of the person having  $n$  of years of education;

$X_0$  - earnings of the person having zero education;

$R$  - the current norm of return of investments in education;

$C_n$  - the volume of investment during  $n$  years of training.

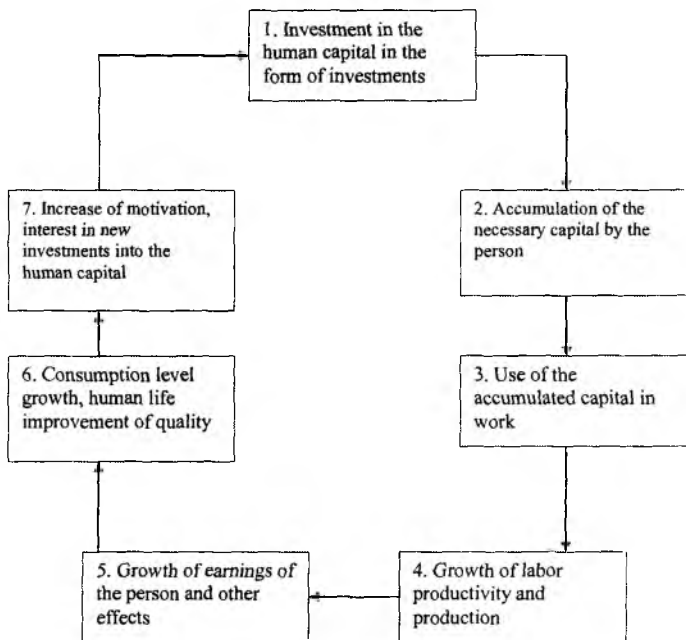
After procedure of definition of expenses of education and benefits from its receiving they make comparison of sizes of benefits with the size of the expenses brought to one time point by discounting. The difference between the discounted sizes of benefits and expenses gives the net specified value of acquisition of education.

G. Psacharopoulos provides data on dynamics of social return of investments into education by the income of the countries per capita. With low level of the income per capita social return of primary education is equal in the majority of the poorest developing countries to 23,0%, an average – 15,0%, and return of the

<sup>1</sup> Fitz-enz Ya. Profitability of investments into the personnel: measurement of the human value of the personnel / Trans. from English, under general editorship of V.I. Yamyh – M.: Vershina, 2006.

highest – 11,0%. With high level of the income social return of primary education is equal in the most developed countries of the world to 14,0%, an average – 10,0%, the highest – 8,0%.

We will note that when developing a state policy in the field of education a number of governmental structures of these countries start using obvious or estimated rates of discount, comprising lower than 8,0% at an assessment of projects in the field of public education.



**Fig. 8.4. Algorithm of formation and realization of the human capital**

Researches, in which it was compared academic, or general, and technical, or professional, secondary education, showed that on the average return of the first

16,0%, and the second – 11,0%. And here expenses are decisive factor: the vocational education demands big expenses, than the all-academic education<sup>1</sup>.

Analysts of the World Bank offered another, discount method of estimation of cost of the human capital. At the set standard of profitability of cumulative national wealth its cost is calculated. Then the cost of the land is subtracted from the received value, minerals, forest and marine resources, the production capital and other assets. As a result there is a cost of the human capital.

The cost of the human capital calculated by this method makes even in the poor countries about a half of national wealth, and in the developed countries — near ¾. And at national level there are strong synergetic effects. In technological venture business, the higher the concentration of highly qualified specialists, the higher the return of each of them. Synergetic effects in the field of scientific researchers are even more considerable.

**Table 8.5**

**Return from investments into the human capital**

<b>For society</b>	<b>For the employer</b>	<b>For the worker</b>
<u>Benefits:</u> - increase in incoming taxes; - strengthening of competitiveness of the state; - decrease in the incidence of the population; - decrease in unemployment rate; - decrease in volume of social payments, including payments on unemployment; - strengthening of social stability; - other external effects	<u>Benefits:</u> - increase in the income because of increase of volume of output and quality of production; - increase of stability and competitiveness in the market; - decrease in losses because of absence from work due to sickness	<u>Benefits:</u> - salary increase; - decrease in risk of unemployment; - decrease in losses of earnings because of diseases
<u>Expenses:</u> - decrease in receipts of taxes during population training; - general direct costs for education, health care etc.	<u>Expenses:</u> - direct expenses on providing safety measures; medical care; - indirect expenses connected with losses of productivity in the period of training; - risks of leaving of skilled workers	<u>Expenses:</u> - the missed net earnings (after) payment of taxes; - direct individual costs for education and medical care

<sup>1</sup> Psacharopoulos G. Returns to Investment in Education//Policy Research Working Paper 1067. January 1993.

According to the majority of researchers, long-term strategy of development of the national human capital has to be carried out according to the following conceptual principles:

1. Recognition of a fundamental role of the state in formation and reproduction of the national human capital;
2. Complex solution of problems of formation of human potential and new quality of life;
3. Advancing development of science, education, health care, culture in comparison with other elements providing positive dynamics of economic growth;

Thus, the problem of quality of the human capital is the major call in the field of social and economic development of the country.

In the course of formation of the human capital close interaction of investors is necessary. State functions in this interaction – creation of the general human capital. It is providing of the general education necessary for performance of labor functions; health – public system of its socialization.

Investments into the human capital at the level of a family are very important, since all components of the human capital are acquired and increase by means of investments which the family puts in the child. Accumulation of mental and psychophysiological abilities of the person in a family is the base for further development and continuous improvement of the human capital of an individual.

But, the most important investor is the owner of the human capital. Making the decision on expediency of an investment into the human capital, the person compares expected expenses and expected income. Some people prefer *momentary* benefits more, and some people appreciate the income which they can receive in the long term.

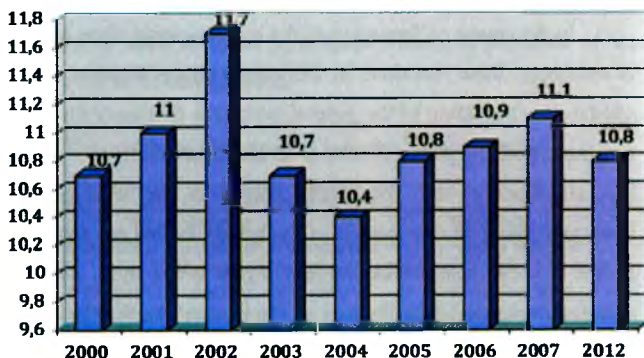
The main directions of investment activity in the Republic of Uzbekistan in the field of the solution of social problems are:

- reduction of poverty and increase of welfare of the population;
- reduction of unemployment by creation of necessary workplaces according to offers in a labor market;



- reforming of the education system and personnel training;
- development of health system;
- improvement of the system of social protection and provision of population with pensions;
- reforming of the system of public and consumer services;
- assertion of social justice in formation and distribution of the income and adoption of the principle of social justice.

Expenses for education in Uzbekistan are rather high. For the last years they constantly exceeded 10,0% of gross domestic product, and in 2012 made 10,8% that is the highest rate not only in Central Asia, but also in Europe (Fig. 8.6).



**Fig. 8.6. The general expenses for education in Uzbekistan (in % to GDP)**

Volumes of the foreign technical assistance directed to development of education of Uzbekistan which made over 500 million US dollars for the last period also grow. First of all, it is the help of Asian Development Bank – about 290 million dollars, the government of South Korea – over 110 million, the World Bank – 33 million, OPEC Fund, the Saudi Fund, Islamic Development Bank – 42 million, the government of Germany through “KfW” bank – about 20 million, and other donors – more than 100 million US dollars.

In Uzbekistan large-scale work has been carried out on reorganization of the system of preparation and professional development of teachers and teaching structure for colleges, lyceums and higher education institutions of the country, and first of all on cardinal revision and approval of new standards, methodical and course books meeting the modern requirements, criteria of an assessment and stimulation of activity of teachers have been radically changed. So, growth rates of the salary of teachers, teachers of professional colleges, lyceums and higher education institutions over the last 10 years approximately exceeded the rates of increase by 1,5 times in compensation with the sphere of real economy.

Now all health systems existing in the world come to three main economic models:

1. The paid medicine based on the market principles with use of private medical insurance.
2. The state medicine with the budgetary system of financing.
3. The health care system based on the principles of social insurance and regulation of the market with multichannel system of financing.

According to article 9 of the Law of the Republic of Uzbekistan "On health protection of citizens" sources of financing of the state health system are:

- means of the state budget;
- means of medical insurance;
- means of the trust funds intended for health protection of citizens;
- the means of the treatment-and-prophylactic establishments received for rendering medical care over the volume guaranteed by the state and for rendering paid services;
  - voluntary and charitable contributions to healthcare institutions from the enterprises, establishments, organizations, public associations and individuals;
  - bank loans;
  - other sources which haven't been forbidden by the legislation.

In Uzbekistan primary medical care is provided to the population free of charge at the expense of budgetary funds. Proceeding from it, the structure of

expenses of the state budget in health care changed with the increase in the share for rendering medical services in primary link of health care by 2,2 times and for carrying out preventive actions – almost changed twice.

Besides not less than 20,0% of services also have to be rendered in private clinics free of charge to the most vulnerable segments of the population pensioners, disabled people, children, citizens from needy families, with compensation of their cost at the expense from the public budgetary funds.

That huge attention which is paid in our country to health protection of people, finds the concrete confirmation first of all in those investments which go to development of this sphere.

The share of expenses on health care in the state budget of the country makes 15,7%, and to the gross product – 4,1%.

Only on strengthening of material base of health care, its re-equipment with the modern equipment and medical equipment for last period more than 700 million US dollars of soft loans, grant means of donors were attracted.

Despite proceeding world financial and economic crisis for the last 2010-2012 the amounts of financing of the sphere of health care grew by 2,5 times.

Only in 2013 investment volume in health care grew by 3,8 times in comparison with 2010. It was as a result of 295 medical objects reconstructed and put in operation. Level of equipment of the republican specialized medical centers increased by 1,8 times and makes 91,7%, including on the hi-tech equipment - 82,6%.

As a whole over the last ten years to the development of health care there were directed budgetary funds and attracted soft loans and grants for the sum over 750 million US dollars.

UZS 11,5 billion and 61,5 million US dollars of the foreign credits were directed to creation and equipment of system of emergency medical care of the republic.

Importance of the human capital for society obliges to make the decision that the considerable burden of expenses has to bear the state. Therefore in Uzbekistan

the general average and secondary vocational professional education is generally financed by the state. Family expenses on these types of education are limited to purchase of textbooks and training materials, clothes, transport expenses and other accompanying expenditures, and also expenses on additional educational services (tutoring, paid circles, etc.).

### ***Control questions***

- 1. Why did the Republic of Uzbekistan after acquiring of independence chooses own model of implementation of market reforms?*
- 2. What does the deideologization of economy mean?*
- 3. What features had "starting conditions" at the beginning of transformation of the economy in Uzbekistan?*
- 4. List the main characteristic features of social economy.*
- 5. What main tasks were there in reforming the economy in Uzbekistan?*
- 6. What is the return of the human capital?*
- 7. At the expense of which means are education and health financed in Uzbekistan?*

## **CHAPTER 9. GOALS OF MILLENNIUM DEVELOPMENT OF UNO AND RESULTS OF THEIR REALIZATION IN UZBEKISTAN**

### **9.1. National reports on human development in Uzbekistan**

After acquiring of the state independence and the accession to the United Nations the Republic of Uzbekistan assumed all key obligations following from membership in the international community. Including – the obligation to participate in realization of the purposes formulated in the Millennium Declaration of the United Nations.

Theoretical and applied aspects of the concept of human development find the reflection in annual global reports on development of the person, published by the United Nations Development Program (UNDP). For expansion of awareness of the general public and initiation of acceptance of concrete measures for problems of human development within a certain country national reports on human development are worked out, which act as the important instrument of analytical and strategic activity of the UN. The first national report on human development was published by Bangladesh in 1992.

National reports on human development contain independent and objective analysis, statistical and other data which connect prospect of human development with priorities of each certain state.

In 1995 in Uzbekistan the first National report on human development on the subject "Social Policy and Social Development" was prepared. The main questions which have been brought up in this National report, - the labor market and social protection, education, health care, demographic policy, ecology and a sustainable development, financing of human development, and also the role of women in development. There were covered also changing role of the state in granting conditions for development of the person. In the conclusion the special attention was paid to position of women in Uzbekistan.

**Table 9.1****National reports of the Republic of Uzbekistan on human development**

<b>Year</b>	<b>Subjects of National reports on human development</b>
1995	Social policy and social development
1996	Economic growth and human development
1997	Social consent and human development
1998	State role in carrying out demographic, economic and social reforms during transition to market economy
1999	The analysis of results of development of Uzbekistan in the last decade of the leaving century from the point of view of development of the person
2000	Strengthening of human development in a foreshortening of development of small and medium business in the country
2005	Decentralization and human development
2006	Health for all: main objective of the new millennium for Uzbekistan
2007/2008	Education in Uzbekistan: balance of supply and demand

In the National report on human development for 1996 it is investigated interrelation between the economic growth and human development. The assessment of carrying out market reforms which make a contribution to development of the person is carried out for this purpose, problems and calls in rural areas come to light, the reforms demanded for strengthening of social infrastructure of health and education are discussed, and also poverty and its various measurements are analyzed.

Subject of the National report for 1997 – social unity and human development. The social unity is a difficult concept; it is easier to recognize it on its absence, than to give it a definition. The lack of social unity is shown in the increasing social tension, crime, emigration of minority, etc. All this negatively influences human development. The social unity can be described as invisible communication which doesn't allow society to break up even in hard times, such as the process of acquiring the independence in which now there is Uzbekistan.

Main objective of the National report for 1998 – the analysis of the role of the state in economic, social and democratic reforms in the transition period. In the report there are considered social strategies which were applied in the country in connection with gasification programs.

In the National report on human development for 1999 the results of development of Uzbekistan in last decade of the leaving century were investigated. The document considers the period since 1991 - year of acquisition of independence, - from the point of view of development of the person, opens positive tendencies and regularities of formation of socially focused market economy, and also reflects difficulties and obstacles which the state faces.

The national report for 2000 is devoted to the analysis of a condition of human development in Uzbekistan, and also developments of small and medium business. The most significant contribution of the report is the comprehensive picture of the condition of human development in Uzbekistan, including questions of culture, inequality and globalization.

The national report for 2005 is devoted to the changes which have happened in human development in 2001-2003, an assessment of commitment of the country to the signed Millennium Declaration of the United Nations on poverty eradication, the assertion of the principles of human dignity and equality, achievement of peace, democracy and sustainable development. In the Report there is considered the role of decentralization of public administration in the solution of the major problems of human development and society democratization.

The annual report on development of the person in Uzbekistan for 2006 is devoted to health problems – to one of the key indicators making an essence of human life and human development. In the report consisting of four chapters, the general tendencies in the field of human development in Uzbekistan, interrelation of indicators of health with other indicators of human development are consistently analyzed. The special chapter is devoted to problems of the Purposes of development of the millennium and what problems face Uzbekistan and what efforts are undertaken by the country for achievement of these purposes.

Education – one of the key indicators making an essence of human life and human development. In the National report on human development for 2007-2008, consisting of four chapters, there are analyzed the general tendencies of human development in Uzbekistan and interrelation of indicators of education with other indicators of human development. Authors of the report paid special attention to studying of the condition of education in Uzbekistan against other world. Communication between education and human development is consistently analyzed and the attention is paid to present state of the economy and social policy of the Government.

The purposes of development of the millennium – the global project which extends on all states of the world. It is thus very important to adapt the purposes and tasks for each separately taken country taking into account its features, historically developed conditions and opportunities of achievement of goals.

As a country which has signed the Millennium Declaration of the UN, the Republic of Uzbekistan keeps the promises to be accepted to the calls stated in the Purposes of development of the millennium.

In Uzbekistan an adapted list of the nationalized purposes and tasks is developed, which has some differences from the created Purposes of development of the millennium of the UN. The list of the purposes and tasks at national level is approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated January 26, 2011 "On additional measures for realization of the Purposes of development of the millennium of the UN in Uzbekistan". And the basis for the system of monitoring and the reporting was put within technical assistance from two agencies the UN – UNDP and UNICEF.

According to the Global report on development of the person for 2013 "the South Eminence: human progress in the diverse world" Uzbekistan is referred to the countries with the average level of human development and takes the 114th place with the Index of development of a human indicator 0,654. According to UNDP in Uzbekistan the estimated life expectancy at birth makes 68,3 years, the



average duration of training – 10 years, the expected duration of training – 11,6 years, a gross national income per capita (PPP in US dollar) – 3201<sup>1</sup>.

**Table 9.2**

**The adapted national purposes of development, their task and monitoring indicators**

Purposes	National tasks and indicators
No.1. Reduction of low-income and defective food	<p><b>Task 1:</b> Low-income reduction by twice by 2015.</p> <ol style="list-style-type: none"> <li>1. Low-income level (consumption less than 2100 kcal a day).</li> <li>2. Share of the population which is below extreme line of low-income (consumption not more than 1500 kcal per day).</li> </ol> <p><b>Task 2.</b> To reduce for 2000-2015 by 50,0% the children under five years with a lack of weight.</p> <ol style="list-style-type: none"> <li>3. Share of children under 5 years with the lowered body weight</li> </ol> <p>The global purpose of the Purposes of development of the millennium 1 was adapted in order to reflect that fact that hunger isn't considered real-life in Uzbekistan. Therefore for Uzbekistan as the most suitable was considered the purpose of reduction of low-income and malnutrition.</p>
No. 2. Improvement of quality education in educational and secondary special, professional educational institutions	<p><b>Task 3.</b> Improvement of the quality of primary and general secondary education by 2015 while maintaining the general access.</p> <ol style="list-style-type: none"> <li>4. Gross and general coefficient of the admitted in educational institutions in the system of general secondary education, the ratio of males/females (%).</li> <li>5. Share of the pupils who began training in the 1<sup>st</sup> class and have reached the 5th class.</li> <li>6. Level of literacy of the population at the age of 16-24 years (it is considered inappropriate for Uzbekistan in view of existence of almost full literacy of the population of this age group)</li> <li>7. Admittance of students in professional colleges / academic lyceums</li> </ol> <p>The purpose 2 was a little adapted for Uzbekistan. Access to initial (and also to secondary school education and training in secondary special professional education) isn't considered a big problem. The main problem which the system of school education of the state faces is preservation and increase of the quality of education, offered at elementary and high schools</p>
No. 3. Encouragement of equality of women and men and expansion of the rights and opportunities of women	<p><b>Task 4.</b> Elimination of the gender inequality in the field of employment and participation in public processes.</p> <ol style="list-style-type: none"> <li>8. Share of women from among the employed in economy.</li> <li>9. Share of the places taken by women in national parliament.</li> </ol>

<sup>1</sup>Report on human development 2013. South eminence: human progress in the diverse world. / Translation from English; UNDP. – M, Publishing House “Ves Mir”, 2013 – p.212.

	<p>The purpose No. 3 wasn't adapted for Uzbekistan as it is an acceptable common goal. The problem of improvement of gender balance in primary, secondary and higher education is almost reached for Uzbekistan, however important there is a question of expansion of the rights and opportunities of women in occupation of high positions in economic and public life of the country. In this regard the task of this purpose was also changed.</p>
No. 4. Reduction of child mortality	<p><b>Task 5.</b> Reduction by two thirds of mortality among children under 5 years by 2015.</p> <p>10. Mortality among children under 5 years. (Level of child mortality per 1000 children under 5 years).</p> <p>11. Infantile mortality (per 1000 live-born).</p> <p>12. Share of the one-year-old children vaccinated against measles (to keep level of 99,0-100,0%)</p> <p>12.1. Immunization against poliomyelitis of children under 1 year.</p> <p>12.2. Immunization against diphtheria of children under 1 year.</p> <p>12.3. Immunization of children under 2 years against tuberculosis (BCG).</p> <p>The purpose No. 4 is considered relevant to Uzbekistan as it mentions important aspects of welfare of the population and has been in the center of attention of the government and donors in recent years.</p>
No. 5. Improvement of maternal health	<p><b>Task 6.</b> Reduction of maternal mortality by one third by 2015.</p> <p>13. Level of maternal mortality (per 100 000 been born).</p> <p>14. Share of obstetric aid with participation of the qualified medical workers.</p> <p>14.1. Share of women of the fertile age having anemia (per 1000 women of fertile age).</p> <p>14.2. Share of women of the fertile age having extra-genital diseases (per 1000 women of fertile age).</p> <p>The purpose No. 5 is a specular reflection of the corresponding global purpose in connection with importance of the solution of this problem for Uzbekistan.</p>
No. 6. Fight against HIV/AIDS, tuberculosis and malaria	<p><b>Task 7.</b> To stop distribution of HIV/AIDS and to lay the foundation of a tendency to incidence reduction by 2015.</p> <p>15. Number of cases of incidence of HIV per 100 thousand people.</p> <p>16. Share of the addicts involved in the program of reduction of infection with HIV/AIDS.</p> <p>16.1. Number of Friendly offices of treatment of HIV/AIDS.</p> <p>16.2. Number of visitors of Friendly offices of treatment of HIV/AIDS.</p> <p>16.3. Number of visitors of the Friendly offices which have received anonymous treatments HIV/AIDS.</p> <p>17. Percent of children with the negative HIV status, born from HIV-infected mothers (by results of PCR- based diagnostics).</p> <p><b>Task 8.</b> To stop tuberculosis and malaria distribution and to lay the foundation of a tendency to incidence reduction by 2015.</p> <p>18. Number of cases of incidence of malaria (per 100 thousand people).</p> <p>It is inappropriate for Uzbekistan.</p>

	<p>19. The mortality rate connected with tuberculosis (per 100 thousand people).</p> <p>20. Share of the contact persons captured by antitubercular chemoprophylaxis.</p> <p>20.1. Incidence of active tuberculosis (with the diagnosis established for the first time), per 100 thousand people.</p>
<p>No. 7. Ensuring ecological stability</p>	<p>The purpose No. 6 was adapted for Uzbekistan and changed. To the solution of problems concerning HIV/AIDS the solution of the questions connected with incidence of tuberculosis was included.</p> <p><u>Task 9.</u> Integration of the principles of a sustainable development in policy and programs of the state and the address back of the process of loss of natural resources by 2015.</p> <p>21. Share of the lands covered with the woods.</p> <p>22. Share of protected natural territories.</p> <p>23. Consumption of energy resources in an oil equivalent per unit of production in tons of conditional fuel.</p> <p>24. Consumption of ozone-depleting substances in tons taking into account ozone-depleting capacity.</p> <p>24.1. Total emissions the acidizing pollutants of SO<sub>2</sub> and NO<sub>2</sub> from stationary and mobile sources.</p> <p>25. Providing population with natural gas.</p> <p><u>Task 10.</u> Increase in the urban and rural people having access to clear drinking water and conditions of sanitation by 2015.</p> <p>26. Provision of the population with water supply.</p> <p>26.1. Provision with water supply in rural areas.</p> <p>27. Share of the population having access to the sewerage.</p> <p>Now it is inapplicable (there are no slums).</p> <p>The purpose No. 7 is formulated practically as well as for global Purpose of Development of the Millennium.</p>
<p>No. 8. Uzbekistan and global partnership for development</p>	<p>Task 11. Enhancing cooperation with the international financial institutions and donor countries.</p> <p>The purpose No. 8 is considered in Uzbekistan through a prism of coordination of means of external assistance and expansion of partner relationship with the international financial institutions, the multilateral and bilaterale donor organizations.</p>

According to the data containing in National reports, during their drawing up (since 1995) the Index of human development of Uzbekistan increased by 44 points. The decisive contribution to improvement of this indicator was made by Gross Domestic Product Index increase: for the period under review its value increased by 92 points.

It is the result of a strong social policy which is carried out in Uzbekistan. Practically all indicators of the Index of human development have a steady

tendency to growth. Calculations in relation to Uzbekistan show that education indexes (40,45%) and expected life expectancy (34,92%) have the greatest impact on the value of the Index of human development.

According to National reports of human development by indexes of education and expected life expectancy Uzbekistan takes a worthy place among the world countries.

Coverage of children in the country with primary education makes 100,0% of number of the corresponding age. Primary and secondary education is organizationally and substantially inseparably linked among themselves. Each comprehensive school organizes training at both steps of the general secondary education. It provides full accounting of graduates of secondary education.

Availability of school education in Uzbekistan is provided not only by its free of charge character, but also by possibility of training in the native language, and also enough and rational arrangement of the schools convenient for visiting by their pupils.

Availability of school education to all categories of children is provided also by existence of special educational institutions (auxiliary schools) at which training of children with deviations in physical and psychological development is carried out. Training and recovery of health of children with physical defects and the weakened health is carried out at schools of sanatorium and residential type.

Secondary vocational professional education since 2009 gets a binding character, but graduates of high comprehensive school have the right to voluntarily choose the direction of training in the academic lyceum or professional college. The academic lyceums and professional colleges give the secondary vocational, professional education providing the equal right for continuation of education at the following steps of continuous education or occupation by work, on the found specialties and professions.

In this system there function 1368 professional colleges and 139 academic lyceums, in which over 1,5 million pupils are trained. In the system of secondary vocational, professional education there work 108925 teachers and training

officers, including 95 doctors of science and 1185 candidates of science. Within the last years more than 103,0 thousand teachers and training officers increased their qualification, from them 1170 abroad – in Japan, South Korea, Germany and other countries.

Higher educational institutions of the country annually on a competitive (test) basis accept on the average 60,0 thousand people. In the system of the higher education there are trained 286,2 thousand students, including in bachelor degree system – 274 730 people in 253 directions of education, and 11 492 people in master degree system on 719 specialties. In higher educational institutions there work 23,1 thousand teachers from which 7 238 have a scientific degree of the candidate and 1588 – doctors of science.

In the report "Global index of innovations" for 2012 of the international business school "Inssad" (France) which is included in number 5 of the best business schools of the world, prepared jointly with the World Organization for Intellectual Property (WOIP) a complex analysis of innovative development of 141 countries of the world was carried out. One of the main components of the analysis is the level of development of the human capital by which the Republic of Uzbekistan took the 35th place in this list. And by level of development of education system Uzbekistan took the general second place among 141 states of the world.

Thanks to realization of the extensive state programs directed to creation of sufficient living conditions of the population in recent years there is noted a decrease in the general incidence of the population by such groups of diseases, as infectious – 45,0% to the level of 1995, diseases of respiratory organs – by 43,5%, congenital anomalies – by 25,0%, new growths – by 24,7% etc.

Considerable changes happened in primary link of health care. Instead of inefficient rural out-patient clinics more than 3,2 thousand rural medical point have been created. Thus – it is not a question of medical assistants and obstetric points as it takes place in other countries, but it's about points equipped with modern

medical equipment in which primary medical help is given by general practitioners.

Optimization of the network of healthcare institutions at district and regional levels is carried out, there have been created compact district medical associations and regional versatile hospitals and polyclinics well equipped with the modern equipment and personnel.

In the country there function 10 republican specialized scientific and practical medical centers on the basis of recognized schools of sciences in such directions, as cardiology and heart surgery, obstetrics and gynecology, urology, ophthalmology, pulmonology and phthiology, endocrinology, and others, where there are concentrated highly skilled, professionally prepared personnel which render hi-tech medical services on the modern equipment.

In all regions of Uzbekistan there function perinatal and screening centers of a mother and a child. All pregnant women in rural areas are provided with the polyvitamins necessary for formation of a healthy fetus, at the expense of the state budget resources.

Within a special state program there has been organized a network of modern screening centers of a mother and a child, the work of which allowed to reduce the birth of children with hereditary and congenital diseases for the period since 2000 by more than 1,7 times.

In the republic there is carried out free vaccination of all children less than two years, which allowed to completely liquidating such diseases as diphtheria, tetanus, poliomyelitis. Nearly 100,0% of children aged under 14 years are twice a year covered by profound medical examinations, and women of fertile age – annually.

As a result of realization of a package of measures for the last 20 years maternal and infantile mortality in the country decreased more than three times.

The life itself proved correctness and efficiency of the model of health care chosen by Uzbekistan. This is also testified by that since 1991 the average life

expectancy in the country increased from 67 to 73,5 years, including women – till 75 years.

Taken cardinal measures for reforming and development of health care over the last ten years promoted essential reduction of the general incidence of the population. Per 100 thousand people the number of incidence of such socially significant diseases as congenital anomalies, it was reduced by 32,4%, infectious diseases – by 40,0%, and acute infections of the upper airways – by 4,2 times.

Cases of such diseases, as diphtheria, paratyphoid, poliomyelitis, malaria and others have been completely eliminated.

Annual medical examination is covered by 5,9 million women, screening inspection is passed by about 150 thousand pregnant women. Free sets of polyvitamins are provided to more than 243 thousand pregnant women living in rural regions of the republic. Coverage of children by immunization against infectious diseases made about 100,0%.

For system-based implementation of development and strengthening of the material base of educational and medical institutions of the republic taking into account modern requirements and international standards last year there was reorganized and from the first days of 2012 there started functioning a new off-budget Fund of reconstruction, capital repairs and equipment of educational and medical institutions.

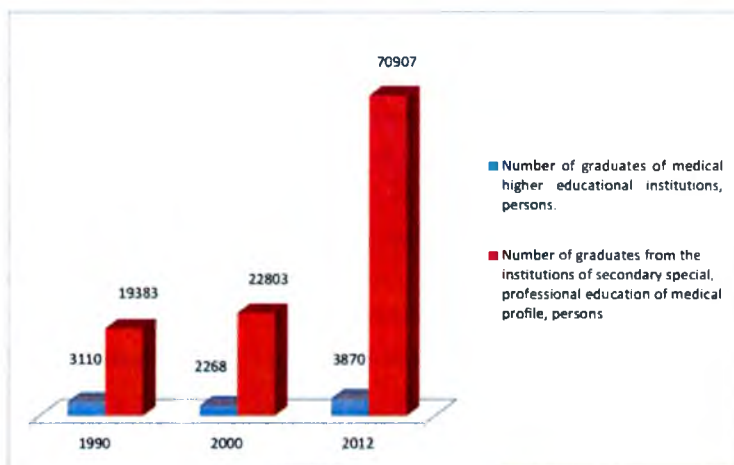
The special place in health system of the Republic of Uzbekistan is taken by health protection of a mother and a child, being one of the priorities of the state social policy.

In Uzbekistan for the last twenty years the level of maternal mortality was reduced more than twice, and infantile mortality - more than three times. Medical care is received by women of the country in 2386 female consultations. For rendering the stationary help nearly 30 thousand beds are developed to pregnant women, women in labor and gynecologic patients. 32 beds are the share of 10 thousand women of fertile age for pregnant women and women in labor, 4,8 beds for gynecologic patients.

Besides, there are two research institutes in the republic for assistance to children and women – Obstetrics and gynecology and Pediatrics, there were created centers of extracorporal fertilization, the endoscopic surgery is developing.

The important direction in realization of the Purposes of development of the millennium is HIV infection prevention. In Uzbekistan there is created and successfully functions the national network of establishments on fight against AIDS, including the Republican center and 14 regional centers for fight against AIDS, and also 78 laboratories of diagnostics of HIV infection under republican, regional and district healthcare institutions.

The special attention is paid by the state to improvement of quality of preparation of the medical personnel (Fig. 9.1).



**Fig. 9.1. Growth dynamics of training of doctors and average medical personnel in Uzbekistan**

Uzbekistan was included in the ten leading countries in a world rating of the states, made by the international organization "Save the children", where they best of all care about health of children.

The index is based on a number of important indicators – number of medical workers per 10 thousand of population, level of availability of medical services in



all regions of the country and their efficiency. Such factors, as the share of the children covered by regular inoculations, and possibility of receiving of the qualitative urgent help by women at the time of delivery were considered as well. On the basis of all data our country took the ninth place in a rating, having outstripped many developed countries of the world, including Germany, France, Great Britain and the USA.

According to a number of authoritative international institutes, Uzbekistan occupies one of leading places among 125 countries of the world on the level of the created favorable conditions for women and motherhood protection. Regional office of UNICEF for the countries of Eastern Europe, Baltic and the CIS Uzbekistan is recognized as regional model on introduction of programs in the field of motherhood and childhood protection.

Uzbekistan proves its commitment to implementation of the Purposes of Development of the Millennium by organization of broad campaign for increase of awareness of the population of the country about the purposes and problems of the Purposes of Development of the Millennium of the UN and the National purposes. Through mass media, including television, radio, newspapers and magazines the systematic explanation is conducted to a general population of the essence and value of the Purposes of Development of the Millennium. For students and teachers, educational institutions, experts the textbook "Human Development" has been published<sup>1</sup>.

## **9.2. Regional aspects of human development of the country**

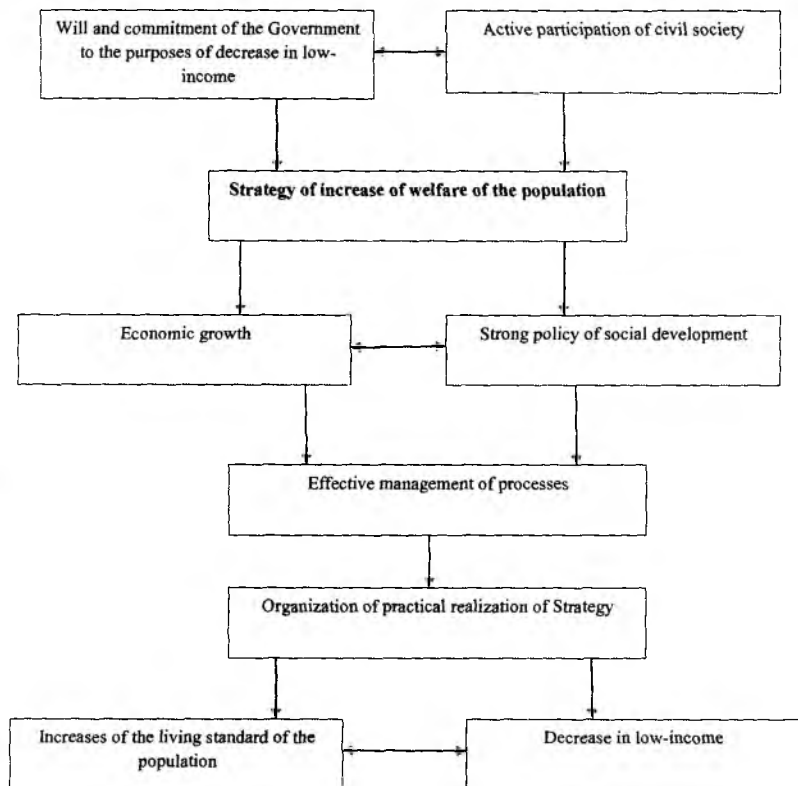
In Uzbekistan at the same time with development of indicators and mechanisms of realization of the Purposes of Development of the Millennium the Government of the republic in cooperation with Asian Development Bank, the UN and the World Bank in 2004 formulated the Strategy of increase of welfare of the population for 2005-2010. In this strategy there are defined the priorities which

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<sup>1</sup> Human development. Textbook. – T. : UNDP in Uzbekistan, University of World Economy and Diplomacy, 2008

have been closely connected with the national Purposes of development of the millennium.

Conceptual basis and prerequisite of development of the Strategy of increase of welfare of the population was the understanding of the need for integration of policy of human development and the program of economic development of the country (Fig. 9.2).



**Fig. 2.4. System of actions in the course of Strategy of increase of welfare of the population <sup>1</sup>**

<sup>1</sup> Health for all: A Key Goal for Uzbekistan in the New Millennium. The report on human development – 2006. – T.: UNDP, 2006. – P.29.

The integrated program of social and economic development has to provide equitable distribution of results of economic growth between all social groups and the layers, equal access to resources of socially vulnerable groups of the population, and also to provide protection from economic discrimination on all signs – territorial, gender, profitable, etc.

This Strategy is focused on interests of the person and assumes ensuring broad participation of all interested persons and institutes in the process of development, realization and monitoring. At its development it is considered that increase of the living standard is formed not only due to increase of the income of the population and consumption growth, but at the expense of a qualitative component of living standard – an education system and health protection, system of social protection of the population, the municipal sphere, the ecological and information environment.

One of the sections of the Strategy of increase of welfare of the population is development of regional strategies of increase of living standard of the population. Regional strategies of increase of living standard of the population are guided by achievement of the following purposes:

- increase of the living standard of the population of territories and low-income reduction through achievement of more accelerated rates of economic growth;
- ensuring equal access of all segments of the population, especially its lower-income strata, to results of growth;
- achievement of sustained economic growth;
- strengthening and involvement of civil society in decision-making process.

The region, in social and economic sense, represents a territorial economic community of people and social conditions of its activity. Therefore, in the conditions of being formed social economy natural and geographical, demographic, national and cultural, social and economic features of the regions of Uzbekistan define more and more important, leading role of regional policy in ensuring development of national economy.

An important feature of the present stage of economic reforms is their regionalization and orientation to use of local resources and reserves of economic growth. Local public authorities become conductors and direct creators, performers of one of five main principles of national model of transition to the market relations "the state is the main reformer". On their ability competently to define an essence of problems and factors of braking of reforms, to make economically reasonable decisions on overcoming of barriers, in a decisive measure, depends the success of market transformations, practical assistance to transformation of Uzbekistan in society of social progress and prosperity.

Effective development of the regions assumes implementation of social and economic decisions, on the basis of the comprehensive analysis of an economic situation and use of the corresponding methods. In the conditions of formation of social economy the main task of the analysis of social and economic development and assessment of the course of economic reforms, in the concrete territory, is definition of interrelation and influence of actions for economy reforming on social and economic processes. It creates a basis for identification of the factors which are slowing down market transformations and adoption of socially weighed decisions on their elimination, successful realization of the purposes and the tasks facing the people of the country.

Certain notions of regional structure of the economy which has been developed now, can give the materials of table 9.3. From the provided statistical data it is obvious that, from positions of social economy, further improvement of regional structure of economy of Uzbekistan is necessary. So, the Republic of Karakalpakstan occupies 37,1% or 166,59 thousand sq.km of the territory of the country, and only 2,4% of gross domestic product of Uzbekistan is produced here. The city of Tashkent takes place on 348 sq.km, however 14,0% of gross domestic product of the country are made here. Thus, in the territory almost by 480 times smaller by the size, there is made more production almost 6 times. Certainly, such comparison isn't absolutely lawful, but, under all other conditions, it demonstrates

reserves and possibilities of development of regions, improvements of regional structure of economy of Uzbekistan.

Table 9.3

**Main indicators of regions of the Republic of Uzbekistan  
(as of January 1, 2013)<sup>1</sup>**

Regions	Territory, thousand sq.km.	Population, one thousand people.	Number of inhabitants per 1 sq.km.	Gross domestic and regional product, billion UZS	Gross regional product per capita, thousand UZS
Republic of Uzbekistan	448,97	29993,5	66,8	96589,8	3244,0
Republic of Karakalpakstan	166,59	1711,8	10,3	2242,5	1317,3
Regions:	4,30	2756,4	641,0	6047,7	2210,9
Andijan					
Bukhara	40,32	1728,7	42,9	5405,8	3145,5
Dzhizak	21,21	1205,0	56,8	2114,1	1767,9
Kashkadarya	28,57	2831,3	99,1	7538,1	2688,2
Navoi	110,99	888,4	8,0	5075,8	5736,7
Namangan	7,44	2458,7	330,5	3759,2	1540,9
Samarkand	16,77	3380,9	201,6	6015,5	1793,8
Surkhandarya	20,10	2260,6	112,5	3673,6	1640,2
Syrdarya	4,28	750,6	175,4	1542,1	2069,9
Tashkent	15,25	2695,7	176,8	9459,3	3450,4
Ferghana	6,76	3329,7	492,6	6522,8	1973,5
Khorezm	6,05	1653,8	273,4	2945,8	1794,3
Tashkent city	0,34	2340,9	7008,8	14177,9	6095,7

In the Republic of Uzbekistan the assessment of development of regions is carried out on the following main indicators:

1. Index of the living standard of the population;
2. Competitiveness index;
3. Index of infrastructure development.

The living standard of the population is defined by the following indicators:

- internal regional product (IRP) per capita;
- unemployment rate;
- the disposable income per capita;

<sup>1</sup> Statistical Year-book of the Republic of Uzbekistan. – T.: The State Committee of Statistics of the Republic of Uzbekistan, 2013. – p.26, 39-40.

- average annual salary;
- level of provision with housing;
- level of development of health system;
- the standardized rate of mortality for various reasons;
- indicator of provision with hospital beds per 100 thousand people.

By these indicators the general level of competitiveness of regions is determined, and also by certain index in particular. The index matters from 0 to 1,0, and on these values it is possible to distinguish three groups of regions with equal intervals:

- 1 group – high level of competitiveness: from 0,66 to 1,0;
- 2 group – the average level of competitiveness – from 0,33 to 0,65;
- 3 group – noncompetitive regions: from 0,00 to 0,32.

The group with high level of IRP per capita includes Navoi region and Tashkent; with average – Tashkent and Bukhara regions; and the smallest level of IRP per capita is the share of the Republic of Karakalpakstan, Namangan and Surkhondaryo regions.

Differentiation of regions according to the real income of the population is such: the highest rate in Tashkent, the lowest indicator in the Republic of Karakalpakstan, Namangan, Samarkand and Dzhizak regions.

As a whole, by the index of living standard the best indicator is in Tashkent and Navoi region, the worst – in the Republic of Karakalpakstan and Surkhondaryo region.

Relatively low level of salary is characteristic for regions with a high share of agricultural production (The Andijan, Dzhizak, Namangan, Samarkand and Surkhondaryo regions). And a rather high level of salary distinguishes industrial regions – Tashkent city, Navoi and Tashkent region.

The index of competitiveness of regions is determined by results of five subindexes: industrial and agricultural development, development of sector of services, investment activity and existence of the human capital.

The subindex of industrial development of the region includes also indicators, such as industrial production per capita, the share of industrial production in the total amount of IRP, export per capita, total amount of export. The leaders by this subindex are Tashkent city, Navoi, Tashkent, Andijan and Kashkadarya regions.

In the structure of a gross regional product the agriculture dominates in Dzhizak, Samarkand, Syrdarya, Khorezm and Namangan regions. However the summary subindex of development of agriculture shows that high rates of development of this branch are provided in Bukhara, Kashkadarya and Samarkand regions.

For Uzbekistan development of a services sector is important from the point of ensuring restructuring of economy and full employment. In the analysis of the subindex of development of services sector in regions there were used such indicators as paid services per capita, the share of paid services in the total amount of services, etc. By these indicators the undisputed leader is Tashkent city, and in lagging behind – Syrdarya, Dzhizak regions and the Republic of Uzbekistan. The city of Tashkent, as well as Kashkadarya and Tashkent regions became poles of the investment growth (tab. 9.4).

**Table 9.4.**

**Indicators of social and economic development of regions of Uzbekistan in 2012<sup>1</sup>**

<b>Regions</b>	<b>Total volume of retail turnover (UZS billion)</b>	<b>Volume of paid services to population (UZS billion)</b>	<b>Investments in main capital (UZS billion)</b>
Republic of Karakalpakstan	1155,2	452,2	1168,8
Regions:	2835,0	1274,5	1158,2
Andijan			
Bukhara	2259,7	745,5	2277,8
Dzhizak	1161,9	280,4	678,5
Kashkadarya	2567,6	731,5	2875,9
Navoi	1469,5	408,8	1625,8
Namangan	2166,2	769,9	758,7
Samarkand	3030,1	1298,7	1383,3

<sup>1</sup> Statistical Year-book of the Republic of Uzbekistan. – T.: The State Committee of Statistics of the Republic of Uzbekistan, 2013. – p.145, 162, 260.

Surkhandarya	2280,0	491,7	845,5
Syrdarya	672,9	191,0	628,3
Tashkent	4060,0	858,2	1872,4
Fergana	3720,6	1226,8	1390,9
Khorezm	1566,6	556,2	700,1
Tashkent city	8451,1	3328,8	5433,1
Republic of Uzbekistan	30946,4	13614,1	22797,3

By all indicators characterizing the subindex of the human capital Tashkent is in the lead. Five regions – Navoi, Bukhara, Andijan, Fergana and Syrdarya regions are approximately equal on the level of development of the human capital and have high potential in comparison with other regions on development of those branches which are focused on primary use of more highly skilled labor (Fig. 9.5).

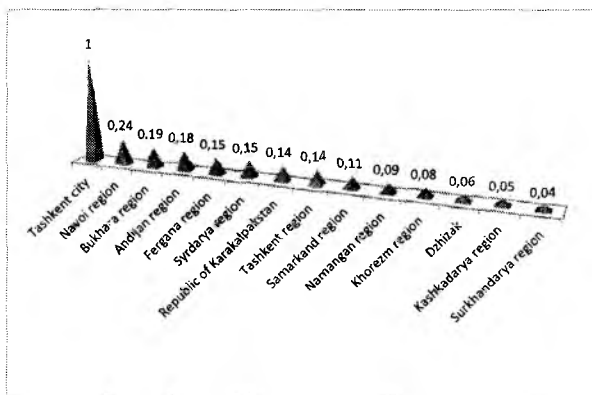


Fig. 9.5. Index of the human capital of regions of Uzbekistan<sup>1</sup>

Considerable differentiation of the levels of social and economic development of the regions of Uzbekistan developed during the USSR. One of the reasons of it is an uneven location of fields of strategically natural raw material

<sup>1</sup> Economic review, 2009, №5-6.- P.55.



resources to which, according to the decisions which are made by the central bodies, the enterprises extracting and processing industry "became attached". Thanks to it, in particular, higher level of social and economic development on an all-republican background reached Navoi region, rich with gold and uranium, Tashkent region, non-ferrous metals and coal, Bukhara region, natural gas. The high level of development of Tashkent was predetermined by its capital status.

At the same time, the lag in social and economic development of the Republic of Karakalpakstan and Khorezm region is in many respects connected with difficult climatic, and also for the last decades ecological conditions as well.

In conditions of formation of social economy it is necessary to carry out in all spheres an integrated approach to formation of a complete economic mechanism.

It is possible to refer the following to basic elements of an economic mechanism of social and economic development of the region:

- complex forecast of social and economic development of regions, the target comprehensive territorial programs defining the strategy, the main objectives and the mechanism of their realization;
- system of the levers providing the solution of the strategic directions of the *territorial organization of productive forces*;
- formation of the organizational structure of coordination of regional system.

Another important characteristic influencing nature of development of regions is the financial condition of a certain territory which reflects the condition of balance of revenue and expense parts of the local budget. Thus, it is important to establish the reasons and factors of non-performance or over performance of volume of receipts in budget revenues. For this purpose, it is necessary to analyze each case of unprofitability of the enterprises (all subjects of managing), to estimate the level of receivables and payables, cases of untimely payment of salary, main reasons which have caused them, and also ways of their elimination.

Crediting of regional structures, also, demands careful analysis and, first of all, from positions of definition of the extent of purposeful usage of credit resources on priority directions of development of the region.

The analysis of the factors normalizing monetary circulation, regulation of emission is very important.

Formation of the market organization of production, formation of qualitatively new relationship of regional levels and structures of economy cause need of its state regulation.

Thus, it is important to note that external, at first sight, localization of reproduction processes of regional systems doesn't mean opposition of economic interests of regions to republican interests. On the contrary, withdrawal from the mechanical arch and equalizing of interests of territorial links thereby are carried out, there are created prerequisites of finding of consensus between participants of reproduction process and, first of all, local and republican governing bodies.

The economic reform dictates new approaches to the mechanism of territorial managing, cardinal not only on the scales, but also on depth of transformations.

Main objective of development of economic methods of control over the territory – ensuring real improvement in the solution of large regional social and economic problems and, on this basis, carrying out effective regional policy.

### **9.3. State regulation of elaboration and realization of national goals of human development**

The present stage of development of economy and society sets essentially new tasks in the field of social policy. The key characteristic of this stage – change of the role of the person in the system of factors of production in connection with increase of value of creative and personal elements in labor processes. The person is put in the center of social and economic system and fuller satisfaction of his requirements, including need for self-realization, is as an ultimate goal and a condition of a sustainable development of society.

Need of strengthening of a social orientation of modern economy demands development of new mechanisms of ensuring basic protection of the population. The answer to this call became the increase of the role of the state as the strategist defining priorities and the directions of social and economic development.

There is a reconsideration of social functions of the state. Redistribution through the budget of a bigger or smaller share of a product in favor of the needing gains the subordinated value. Key function of the state as subject of social policy consists in formation of the social and economic environment favoring to active self-realization of each member of society.

Tasks of the state include both direct realization of measures for human development, and general regulation of social parameters of economic process. The main directions of such regulation – legislative protection of the worker; the active policy of employment stimulating creation and improvement of quality of workplaces; establishment of the state minimum of salary.

Recently the belief that the redistributive component of social policy which is initially carrying out protective function grows, finally well influences the development of economy.

First, it makes an essential contribution to processes of reproduction of the population and labor.

Secondly, more uniform distribution of income leads not only to growth of volume of solvent demand (as a result of reduction of the share of saved part with the growth of consumed and invested parts), but also to improvement of its structure as a result of approach to structure of real needs.

Thirdly, mitigation of social tension is a factor of formation of a special type of non-material wealth – the human capital.

During reforms social policy was formed against the solution of a double task – reorganization of social and economic system and adaptation to competitive requirements of global economy. The chosen strategy assuming fast narrowing of the sphere of the power of the government and accelerated privatization, defined nature of social policy which in practice was reduced to the only direction – the

social protection urged as far as possible to compensate expenses of reforms to the population. The problem was considered only in the plane of optimization of redistribution of limited resources between socially vulnerable groups.

The social sphere is a sphere of human development where the state in any country plays a crucial role. The branch of the social sphere most sensitively influences a standard of living and very painfully for the population gives way to market regulation.

State regulation of the social sphere — regulation by state governing bodies of functioning of branches and kinds of activity of the social sphere. It assumes establishment of the principles, methods, standards and organizational structures, implementation of measures of legislative character, development of mechanisms of realization of the financial and credit, investment, tax policy, directed to improvement of functioning of the social sphere. Function of state regulation acts as a basic element of management process, and management represents cumulative implementation of functions, including such functions, as the organization, planning, regulation, control and account.

In Uzbekistan from first years of independence strong social policy was proclaimed one of the main priorities of the state, and in many respects thanks to it, despite all difficulties of a transition period in the country it was succeeded to keep steadily working systems of education, health care, culture.

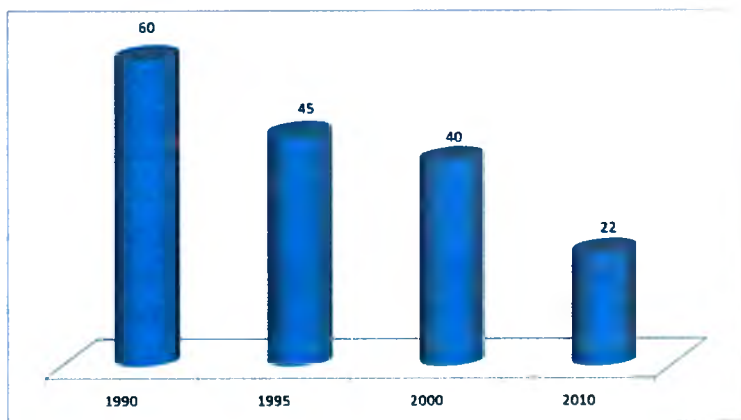
As it is recorded in the UN Millennium Declaration, any state has to be responsible for progress of human development. For the state the national purposes of development are an opportunity to combine efforts for fight against low-income, improvement of access to main types of social services, decrease in distribution of diseases and manifestation of care of environment.

The state role in realization of the National purpose No. 1 – increase of the living standard of the population and reduction of low-income is shown in full support of business. That in the structure of the cumulative income for this period there were new articles of the income from property, from implementation of

business activity is remarkable. 47,0% of all cumulative income fall to the share of this income.

The positive role of this new income is connected with that increase of enterprise activity of the population creates market incentives for the dynamic and steady growth of the cumulative income of families, reduces dependence and equalization level in the income which was inherent in the centralized economy.

For further increase of the living standard of the population there have been carried out simplification of the system of the taxation and considerable decrease in the rates of income tax paid by individuals. If in 1990 the tax on the income of individuals was calculated and levied on 7 scales with the maximum rate of 60,0% of gained income, in 2010 the tax is raised on 3 scales, thus the maximum rate of a tax makes 22,0% (Fig. 9.6).



**Fig. 9.6. Decrease in the maximum rate of income tax of individuals in Uzbekistan (the rate value in %)**

At the same time for managing subjects expenses on hiring of workers were cut: if the rate of expels of employers in system of obligatory social insurance (in the Pension fund, Fund of employment and the Federation Council of labor unions)

in 1994 it comprised 40,0% of compensation fund, in the next years it was step by step lowered to 25,0%.

For stimulation of the consumer demand and expansion of production of goods (works, services) the rate of the value added tax was lowered from 30,0 to 20,0% (table 9.5).

**Table 9.5**

**Changes of tax rates in Uzbekistan**

<b>Types of taxes</b>	<b>Maximum tax rates for the period 1992-2009</b>	<b>Established rates for 2010</b>	<b>Decrease</b>
Value added tax	30,0 %	20,0 %	by 1,5 times
Income (profit) tax of legal entities	45,0 %	9,0 %	by 5 times
Property tax from legal entities	5,0 %	3,5 %	by 1,4 times
Single tax payment for small enterprises	15,2 %	7,0 %	by 2,2 times
Income tax from individuals	Up to 60,0 %	Up to 22,0 %	by 2,7 times
Single social payment	40,0 %	25,0 %	by 1,6 times

Besides, unification of taxes was carried out, a number of duplicating and ineffective taxes and obligatory payments were thus cancelled. As a result, by the size of rates of the main taxes Uzbekistan is currently referred to the countries with low level of the taxation, and the cumulative tax burden doesn't exceed 21,9% to gross domestic product.

In 2014 it is provided for further decrease in tax burden, in particular, decrease in the rate of the profit tax of legal entities from 9,0% to 8,0%, and also decrease in the minimum size of the income tax of individuals from 8,0% to 7,5%. It will allow to release and leave at the disposal of the enterprises more than UZS 130 billion that will promote replenishment of their current assets, to accelerate modernization and technological updating of production. At the same time it will allow to increase the population income more than by UZS 90,0 billion.

The structure of expenses of the State budget is changing qualitatively as well. Despite decrease in cumulative expenses of the State budget to gross domestic product, the social orientation of expenses not only remained, but also

considerably amplified. In particular, expenses for education in the country increased almost twice, for health care – by a third.

Successful realization of the National purposes of human development is testified not only by growth of the income, but also qualities of structural expenses of the population of the country. The macrostructure of consumer expenses of families is optimized as well: the share of expenses on food is being stabilized and the share of expenses on services that is characteristic for the countries with developed economy (tab. 9.6) increases.

**Table 9.6**

**Dynamics of changes of structure of cumulative expenses of the population of Uzbekistan (in %)**

Indicators	1990	2000	2010	2011
<b>I. Structure of expenses, total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
including:				
- consumer expenses	81,1	84,3	78,5	78,4
- non-consumer expenses (payment of taxes, membership fees, other obligatory payments)	7,1	6,9	6,3	6,2
- savings	11,8	8,8	15,2	15,4
<b>II. Consumer expenses – total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Including:				
- on acquisition of foods	58,3	59,8	51,9	49,8
- on purchase of non-food goods	31,5	26,8	31,9	33,7
- on payment for services	10,2	13,4	16,2	16,5

In recent years expenses on acquisition of nonfoods and payment for services have considerably grown. Thus volumes of average per capita consumption of the major types of food grow strictly. Equipment of families with cars of domestic production, modern household appliances, including refrigerators, conditioners, personal computers, TVs, mobile phones increased.

As a whole, growth of the income and savings provided increase in purchasing power of the population. During 2000-2013 consumer expenses of the population increased by 9,5 times.

#### 9.4. Human development and civil society

Complexity of problems of ensuring human development causes the necessity of broad participation and partner interaction of all structures having functional relation to these processes. Main goal of such interaction is creation of conditions and opportunities for increase of the living standard and welfare of both the country population as a whole, and the families, each certain citizen.

In Uzbekistan the principle "From the strong state – to strong civil society" is systemically and consistently realized, the sense and meaning of which are that in the process of implementation of social and economic, political reforms the problem of strengthening of the role of citizens in the government of the country moves forward. In practice it means further development of all system of institutes of civil society, its harmonious integration in management of the state, administrative-territorial formations.

In the country a strong legislative base regulating the relations between the state and society, activity of civil institutes has been created. In the Constitution of the Republic of Uzbekistan it is fixed that the state provides observance of the rights and legitimate interests of public associations, creates to them equal legal opportunities for participation in public life. In development of provisions of the Constitution over 200 legislative acts were adopted. The Law of the Republic of Uzbekistan "On guarantees of activities of non-state non-profit organizations", which established a complete system of legal, economic, organizational and technical measures of support of diverse activity of NNO, became an important factor of strengthening and development of independent non-government non-profit organizations and other institutes of civil society.

A new stage of transformations in this major sphere was opened by realization of "Concepts of further deepening of democratic reforms and establishing of civil society in the country" developed by the President of the Republic of Uzbekistan I.A.Karimov. As the head of our state emphasized, **"Civil institutes, non-government non-profit organizations become today an important factor of protection of democratic values, rights, freedoms and**



**legitimate interests of people, create conditions for realization by citizens of their potential, increase their public, social and economic activity and legal culture, promote maintenance of balance of interests in society"<sup>1</sup>.**

So, according to the Concept of further deepening of democratic reforms and formations of civil society in the country there are adopted new editions of the laws "On Self-government Institutions of Citizens" and "On Elections of the Chairman (Aksakal) of citizens' gathering and his advisers" directed towards transformation of the makhalla into the center of targeted social support of the population, development of private entrepreneurship and family business. In those documents it is also provided expansion of functions of makhalla in the system of public control over activity of government bodies of management, and also measures for further improvement of the election system of chairmen of self-government institutions of citizens. This, undoubtedly, will promote ensuring election by aksakals and their advisers of the most worthy citizens, increase of the value and the role of makhalla in ensuring public activity of citizens.

For accurate differentiation of borders and improvement of organizational legal mechanisms of NNO with government institutions in the implementation of programs of social and economic development, the solution of humanitarian problems, protection of the rights, freedoms and interests of various segments of the population of the country it is provided adoption of the law "On social partnership".

It is also planned adoption of the Law "On public control in the Republic of Uzbekistan", which undoubtedly, will promote creation of a system effective legal mechanism of control over the performance of acts of the legislation by state governing bodies by society, civil institutes. So, in the Law there will be stipulated definition of types, forms and subjects of public control, a control subject, legal mechanisms of its implementation, and also the conditions of occurrence of responsibility of persons for non-use of current legislation in the given sphere.

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<sup>1</sup> I.A. Karimov The concept of further deepening of democratic reforms and establishing of civil society in the country // Narodnoe slovo, November 13, 2010.

Along with it, changes and additions will be made to the Code of the Republic of Uzbekistan "On administrative responsibility", providing strengthening of responsibility of officials of government bodies for violations of requirements of the legislation which define the rights of NNO in various spheres of public and state building of social and economic development in regions.

In the Concept it is provided also development of a package of the legislation, creating a legal basis of participation of NNO in the solution of the major state programs in the sphere of health care, environmental protection, employment, especially of young people, social support of vulnerable segments of the population and other problems having social importance. In particular, it is provided development of a draft of the Law "On Environmental Control" directed to definition of the role and the place of NNO in the system of ensuring environmental protection, some other acts of the legislation.

Today the activity of institutes of civil society of Uzbekistan, the number of which in the country already exceeded 6,5 thousand. Non-government non-profit organizations are created for the purpose of solution of specific problems, for example in the field of human rights, environment, health care, education, culture and etc. NNO also carry out a set of humanitarian functions, inform the government of the need and expectations of people, satisfy requirements of the needy, disabled children, solve problems of young people.

Such important institute of civil society as mass media also develops dynamically. In recent years there were adopted about 10 acts of legislation which have been directly aimed at further democratization and liberalization of mass media, increase of their activity in ensuring publicity and openness of carried-out political and social and economic reforms, introduction of the advanced information and communication technologies in media spaces.

The quantity of mass media in the country exceeds 1250, thus many of them are non-government. Democratization of the information sphere is promoted by Public fund of support and development of independent print media and news agencies of Uzbekistan and National association of electronic mass media.

The NNO National association of Uzbekistan which uses different forms and mechanisms of organizational, financial and material support of the members became one of feedback channels between state bodies and non-governmental non-profit organizations.

At the present stage of political updating and reforming of society, support of non-government non-profit organizations and other institutes of civil society, strengthening of their role and value in the course of democratic updating of the country is an important condition of ensuring their real independence. In Uzbekistan there works the unique system of the state stimulation of this democratic process.

In 2008 under Oliy Majlis the Republic of Uzbekistan there was created Public fund on support of non-government non-profit organizations and other institutes of civil society and the Parliamentary commission on management of its resources. Activity of the Parliamentary commission allows to provide the most transparent, open, address and what is especially important, democratic distribution of the financial funds allocated from the State budget for support of "the third sector" that fruitfully influences strengthening of organizational and technical and economic bases of the NNO. Thus funds of Public fund are allocated by NNO for strengthening of their economic independence, increase of social activity of the population and development of social partnership in society. According to many international experts, this is an independent, unique system founded on the most democratic principles.

Socially significant projects are financed by the Public fund in the following directions:

- the first direction – activation of participation of NNO in realization of complex measures for development of small and family business, private business and work from home in the country, as important direction of employment of the population;
- the second direction – realization of complex measures for the assertion among young people of the principles of a healthy lifestyle, formation in young

people the aspiration to creation of a healthy and strong family, their protection from drug addiction, immorality, from external threats and "mass culture";

- the third direction – increase of ecological literacy of the population, providing with clear drinking water of inhabitants of ecologically unsuccessful regions, including Aral Sea Region. Thus, including organization of propaganda activities for rational use of water and land resources, reduction of pollution of objects of water use and atmosphere;

- the fourth direction – creating favorable conditions for disabled people, their training for various professions, increase of their legal literacy, strengthening of material base of their societies and unions, support of socially vulnerable segments of the population.

Funds of Public fund are allocated directly to non-government non-profit organizations on the basis of their demands, and also decisions of the Parliamentary commission, without participation of any intermediate links and structures. During 2008-2013 to NNO and other civil institutes for implementation of their socially significant projects it was allocated over UZS 30,0 billion from the state budget through this fund.

The mechanism of distribution of these funds – by carrying out of grant competitions, allocation of subsidies and placement of social orders has also been created. On the basis of such support of initiatives of civil institutes which are today a driving force of many positive changes in the country, hundreds of projects have been realized in spheres of health care, education, environmental protection, development of business and home work, increase of legal culture in society, education of harmoniously developed generation. For the last year the number of NNO participating in implementation of state programs increased almost twice.

The Resolution of the President of the Republic of Uzbekistan "On additional measures on rendering assistance to development of institutes of civil society" dated December 12, 2013 became logical continuation of the state support of "the third sector".

In particular In the Resolution stipulates a decrease by 5 times of the rates of the state duties collected for the state registration of NNO, and by 2,5 times - the amount of the collecting raised for state registration of their markings. Besides, collection of the state tax for registration of separate divisions of NNO (representations and branches), including allocated with the rights of the legal entity, registered in the Republic of Uzbekistan is cancelled.

At the same time for associations of disabled people, veterans, women and children registration conditions become simpler. So, according to the new resolution, for their registration the state tax of 50,0% of the sizes of the state taxes is established. The term of consideration by judicial authorities on the state registration of NNO is considerably reduced as well – up to one month whereas earlier for these purposes two-month term was legislatively established.

By the resolution it is fixed that the provision of article 53 of the Civil Code doesn't extend on NNO, providing as the basis for elimination of legal entities the failure of financial and economic activity by them with carrying out of monetary transactions of bank accounts within six months.

The task of improvement of organizational legal mechanisms of interaction of state governing bodies is set for the Cabinet of Ministers of the Republic of Uzbekistan with NNO in the solution of the actual problems representing big social importance, and also development and implementation of industry, regional and territorial programs of social and economic development, first of all in those spheres in which the state needs active support of NNO. Responsibility for taking measures on providing effective control is conferred to the Ministry of Justice of the Republic of Uzbekistan over observance by state governing bodies in the center and at places of the rights and legitimate interests of NNO.

Broad involvement of non-government non-profit organizations in processes of improvement of human development, undoubtedly, will give a new powerful impulse of activization of the work, directed to realization of the National purposes of development of the person.

### ***Control questions***

- 1. What is the difference of the National purposes of development of Uzbekistan from the Purposes of development of the millennium of the UN?*
- 2. Define the Index of human development of Uzbekistan proceeding from the following data: Gross domestic product per capita 3100 US dollars by purchasing power parity; estimated life expectancy at the birth of 73 years; the average duration of training is 12 years; the expected duration of training is 14 years.*
- 3. By what achievement of the purposes are regional strategies of increase of the living standard of the population in Uzbekistan guided?*
- 4. What regions of the country are included into group with the average level of a gross regional product per capita?*
- 5. What changes happened over the last 10 years in structure of the cumulative income of the population of the country?*

## **CHAPTER 10. NATIONAL GOALS OF MILLENNIUM DEVELOPMENT OF UZBEKISTAN**

### **10.1. Prospects of realization of national goals of millennium development**

In Uzbekistan with assistance of the United Nations Development Program (UNDP) the Action Plan of the Country program for 2010-2015 has been developed.

It should be noted that the Government of the country closely cooperates with UNDP in development and realization of the National purposes of the millennium. Earlier the UNDP Country program for Uzbekistan for 2005-2009 was accepted. It was concentrated on the solution of three program tasks:

- economic development and low-income reduction;
- assistance to reforms in the field of democratic management;
- environment and energy sector.

The United Nations Development Program also played a key role in technical assistance when developing Strategy of increase of welfare of the population of the Republic of Uzbekistan. The government approved this national strategy in August, 2007 as the main document of social and economic development of the country for 2008-2010. UNDP rendered assistance to the government in adaptation of the Purposes of development of the millennium to national conditions of Uzbekistan therefore there were developed a number of national purposes, tasks and indicators. The national Purposes of development of the millennium were included subsequently in the framework of Strategy of increase of welfare of the population.

The framework program of the United Nations on assistance to development in Uzbekistan (UNDAF 2010 – 2015) will provide strategic program support in the same main areas as the previous Country program:

- economic management and decrease in level of low-income;
- environment and energy;

- democratic management.

In Uzbekistan the major tasks for 2011-2015 are determined:

- ensuring macroeconomic stability and steadily high rates of economic growth, improvement of its qualitative parameters due to further diversification of branches of economy;
- modernization, technical and technological updating of production;
- increase of competitiveness of domestic goods and services in the internal and external markets.

It is necessary to distinguish "sustainable economic growth" and "sustainable development". The concept "sustainable development", arisen in the sixties of the XX century, means careful approach to use of environment and natural resources. It will allow the present generation of all nations to provide a worthy standard of living and, at the same time, to keep and protect key ecological systems of the planet which are important for the survival of a person and worthy life of future generations.

The Conference on human environment (The Stockholm conference on environment) organized under the auspices of the United Nations in 1972 came to a conclusion that further development and existence of the world community is possible only if it is carried out with a condition without defective use of natural resources. Further the concept was improved by the Commission of the UN on environment and development in 1987 which defined "sustainable development" as development which *"satisfies needs of the present generation, without threatening to the needs of future generations"*.

The concept of a sustainable development was discussed and developed at the conference of the United Nations on environment and development (UNCED) which took place in Rio de Janeiro in June, 1992.

At the conference there was adopted the Declaration on environment and development, called *"the Agenda 21"* ("The agenda for the XXI century").



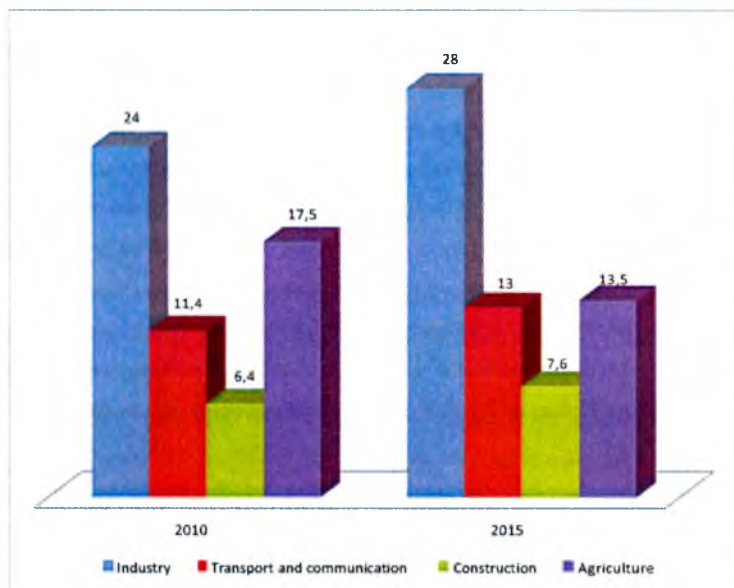
For the Republic of Uzbekistan the principle of sustainable development is very important. Therefore strategic objectives of sustainable development in the country are:

- providing healthy and fruitful life of each its citizen with a forward and stable social and economic growth;
- formation of socially focused market economy integrated into the system of world economic relations;
- overcoming of consequences of ecological crisis of the Aral Sea and improvement of the ecological situation in other areas of the republic;
- preservation and improvement of favorable environment;
- effective use of natural resources, their preservation for use by future generations.

The planned result of the Framework program of the United Nations on assistance to development in Uzbekistan (UNDAF 2010-2015) No. 1 - *"Increase of economic welfare of the population, including its vulnerable layers (inhabitants economically lagging behind, in particular rural territories; women, in particular, home workers; labor migrants and their families; children, in particular, teenagers of groups of the increased risk; the aged; persons with the positive diagnosis of HIV; and people with disabilities)"*.

Ensuring steady high growth rates of gross domestic product in Uzbekistan is planned according to the principles of sustainable growth. For 2011-2015 the increase in gross domestic product by 1,5 times, and by purchasing power parity – by 1,6 times is planned. It will be for this purpose necessary to provide annual GDP growth more than by 8,0%. Thus stability of economic growth will be provided with balance of macroeconomic indicators, low indicators of inflation and stability of the rate of national currency. Structural transformations of the economy and its further diversification allow to increase the share of the industry in gross domestic product structure from 24,0% in 2010 to 28,0% in 2015, further development of other branches of economy is respectively planned. Though the share of agricultural production in the structure of gross domestic product will

decrease from 17,5% to 13,5%, the output of production of agrarian sector will increase by 1,3 times (Fig. 10.1).



**Fig. 10.1. Parameters of growth of branches of economy for 2011-2015 (the share of branches of economy in GDP, in %)**

Measures are taken for improvement of qualitative parameters of the industry. The Program of prime measures for expansion of outputs and development of release of new types of competitive production has been approved. In particular, it is planned to realize in the next several years about 50 projects on expansion of outputs of competitive production on the basis of the operating enterprises. The total cost of projects will make 658 mln. US dollars, from which 176 mln. dollars – own funds of the enterprises, 164 mln. dollars – Fund of reconstruction and development of Uzbekistan, 210 mln. dollars – the credits of commercial banks, 108 mln. dollars – foreign investments and credits. There will be realized also 77 investment projects on production of import-substituting

accessories of knots, raw materials and materials for total amount of 787,6 mln. dollars.

Steady high growth rates of gross domestic product observed in recent years and maintenance of high level of the public expenditures in education and health, allowed to provide reduction of the general level of low-income in Uzbekistan from 27,5% (22,5% in the cities and 30,5% in rural areas) in 2001 to 23,6% (17,6% in the cities and 27,1% in rural areas) in 2007<sup>1</sup>.

For achievement of the objectives of development of the millennium and the planned result on increase of the standard of living of UNDAF 2010-2015 of UNDP in Uzbekistan defined the following two outcomes:

*Outcome 1.1: Strengthening of capacity of the central and local governing bodies for development and realization of measures in the sphere of economy and social protection, directed to increase of welfare of vulnerable segments of the population*

*Outcome 1.2: Increase in opportunities for employment and providing economic security for vulnerable segments of the population.*

*Result 1.1.3: Extension of access to microfinancing services, and also consulting and information services in the business sphere.*

*Result 1.1.4: Infrastructure restoration jointly with local communities for expansion of access of the population to the main social services*

Cumulative income of the population has to increase not less than by 2.6 times by 2015, considerably will increase also the sizes of salary, pensions, allowances and grants.

Deepening of the reforms in health care will be directed to improvement of quality of rendered medical services, expansion of the system effectiveness of early identification and prevention of diseases, first of all in rural areas, ensuring sanitary and epidemiologic welfare, and also development of highly specialized scientific centers with introduction of new technologies of diagnostics and treatment of diseases.

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<sup>1</sup> Project of the Country program of the UNDP for Uzbekistan 2010-2015 (March 19, 2009)

So, in 2011-2015 it is provided construction, reconstruction and equipment of over 700 healthcare institutions that is 1,8 times more than for the last five years, including 27 regional versatile centers, 12 regional centers of medical diagnostics and 10 republican specialized centers.

Between the World Bank and the Government of Uzbekistan there has been concluded the agreement on credit financing from funds of the International association of development for the sum of 93,0 mln. US dollars, the project provided for realization "Improvement of Health System of Uzbekistan". This project of the World Bank "Health -3" is aimed at assistance in expansion of scales of the main events on improvement of the sector of health care by deepening of reforms held in this sector in the context of the State strategy of increase of welfare of the population.

There is provided health system modernization for ensuring broader access of the population, especially its rural part, to high-quality and steady medical services. These objectives will be achieved by expansion of access to high-quality services of health care of primary link, improvement of quality of services and financial stability of the selected rural hospitals, ensuring their bigger availability to the population and creation of the basis of the system of monitoring and control of noninfectious diseases.

1) improvement of the quality of services of health care. Within this component the main attention will be paid to improvement of quality of hospital service, development of health care of primary link, improvement of quality of clinical service;

2) strengthening of reforms of financing and management of health care sector. Within this component the main attention will be paid to per capita financing of sector of health care of primary link, reforming of the system of payment for hospital service at the level of districts and to creation of the system of informing on financing of sector of health care;

3) institutional strengthening for prevention and fight against noninfectious diseases.

According to this project of the World Bank it is planned to equip with the modern medical equipment more than 100 nurseries of versatile hospitals and obstetric aid establishments, and also completion of works on the organization at rural medical points of branches of drugstores with their providing with vital medicines.

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated October 14, 2011 No. 280 there was approved the Plan of additional measures for improvement of education of children, formation of healthy and harmoniously developed generation. It stipulates carrying out of the analysis of the condition of implementation of current laws in the sphere of protection of the rights of a child, development of a draft of the law of the Republic of Uzbekistan "On guardianship authorities".

For further realization of measures for "Healthy Mother —Healthy Child" direction, there is planned the organization of profound complex medical examinations from 100,0% by coverage of women of fertile age and girls under 14 years with the subsequent carrying out, if necessary, improving actions in healthcare institutions.

During 2011-2015 in the area of education there will be carried out re-equipment of educational institutions with the most modern equipment. At the expense of off-budget Fund of reconstruction it is planned to finish equipment of all schools with computer classes, and also implementation of works on construction and reconstruction of 400 objects of children's sports.

Within the State program of strengthening of material base and further improvement of activity of children's schools of music and art for 2009 — 2014 new construction of 136 and capital reconstruction of 142 of these establishments will be carried out.

The special attention is paid to ensuring the rights and interests of socially vulnerable children. It is planned the development of the draft of the Concept of inclusive education which means access to education of children with special needs.

The system work begun in 2009 on complex building of rural areas by massifs of individual houses on standard projects with the increased comfort and

with all conveniences and utilities - the most important direction of strategy of improvement of quality of life of country people of Uzbekistan. In 2011-2015 it is provided construction according to standard projects of 35,5 thousand individual houses with simultaneous creation on newly equipped inhabited massifs of modern engineering, transport infrastructure and social objects.

UNDP will assist expansion of access to microfinancing services, consulting and information services in the sphere of business and to services in maintenance of small business, and also potential increase in attraction of investments, improvement of the legal basis of microfinancing. Changes and additions will be to the Law "On Microfinancing" and "On the Microcredit Organizations" for this purpose. *Organization of not less than 12 Centers of assistance to business* is planned as well.

It should be noted about demographic tendencies in Uzbekistan having essential impact on the level of the Index of human development. So, the growing number of children puts considerable pressure upon budgets of education systems and health care, and also upon social infrastructure, doing it more difficult for maintenance of the quality standards of the main social services.

Along with it the number of young people arriving on the labor market, remains huge. For maintenance of the standard of living of a family, and guaranteeing a worthy standard of living, the economic growth in the country has to be as much as possible expressed labor-intensive process, for ensuring access to productive employment and income for this growing number of able-bodied age.

Considering it, in 2011-2015 creation of not less than 950 thousand new workplaces, mainly in rural areas is planned annually.

In creation of new workplaces the leading part is assigned to the private sector. Realization of measures for creation in the country of the most favorable environment for the accelerated development of small business and private entrepreneurship has to provide increase of the share of this sector in gross domestic product over 60,0%, i.e. bring this indicator to the level of the developed countries of the world.

For this purpose in the forthcoming years the work on further development of the sphere of microfinancing will be continued. In 2011-2015 the volume of financing by commercial banks of the projects of subjects of small business and private entrepreneurship, first of all issuance of the long-term credits for the investment purposes and formation of the starting capital, expansion of the preferential microcredit provided by Mikrocreditbank will increase by 2,7 times, and the volume of delivery by the non-bank credit organizations of the microcredit and microfinancial services – by 2,8 times.

## 10.2. Formation of “economy of knowledge” in Uzbekistan

Now there is a global structural shift which will mark transition from "material economy" to "intellectual" economy, "to economy based on knowledge" (knowledge – based economy), the essence of which is reduced to that scientific knowledge and specialized unique skills of their carriers become the main source and a key factor of sustainable economic growth. The former prime minister of Great Britain Tony Blair emphasized: *"The knowledge economy is actually all the economy. There is no "new economy", simply all the economy is transformed by information technologies - it is an economic revolution"*<sup>1</sup>.

According to the academician V.L.Makarov: *"the knowledge economy gives that bigger volume of production, than, on the one hand, more knowledge is created by scientists, and on the other hand, than more people consumed this knowledge. That is, it is important both work of scientists, and work of people which bring knowledge to the end user"*<sup>2</sup>.

Knowledge economy - the highest stage of development of post-industrial economy and innovative economy. Often the term knowledge economy is used as a synonym of innovative economy. However knowledge economy is the highest stage of development of innovative economy.

<sup>1</sup> Buckman R.H. Building a Knowledge – Driven Organization. – McGraw – Hill, 2004.

<sup>2</sup> Makarov V. L. Knowledge Economy: lessons for Russia// Bulletin of the Russian academy of science, 2003, No. 5. P. 73.

The infrastructure of knowledge economy includes the following main components and development drivers:

- the effective state institutes realizing high quality of life;
- high-quality education;
- effective fundamental science;
- effective scientific and technical venture business;
- the high-quality human capital in its broad definition;
- production of knowledge and high technologies;
- information society or society of knowledge.

For now the knowledge economy was created by the USA and partially by certain EU countries.

The leading countries of the world created conditions close to optimum for a fast and effective embodiment of ideas of scientists in concrete goods and products. Basic researches, the raised investments into the human capital and new breakthrough technologies generated by them provide to the leading countries of their world leadership.

The main factor of formation and development of knowledge economy is the human capital. Specific weight of the human capital in such advanced countries as the USA, Finland, Germany, Japan, Switzerland, etc., make to 80,0% of their national wealth.

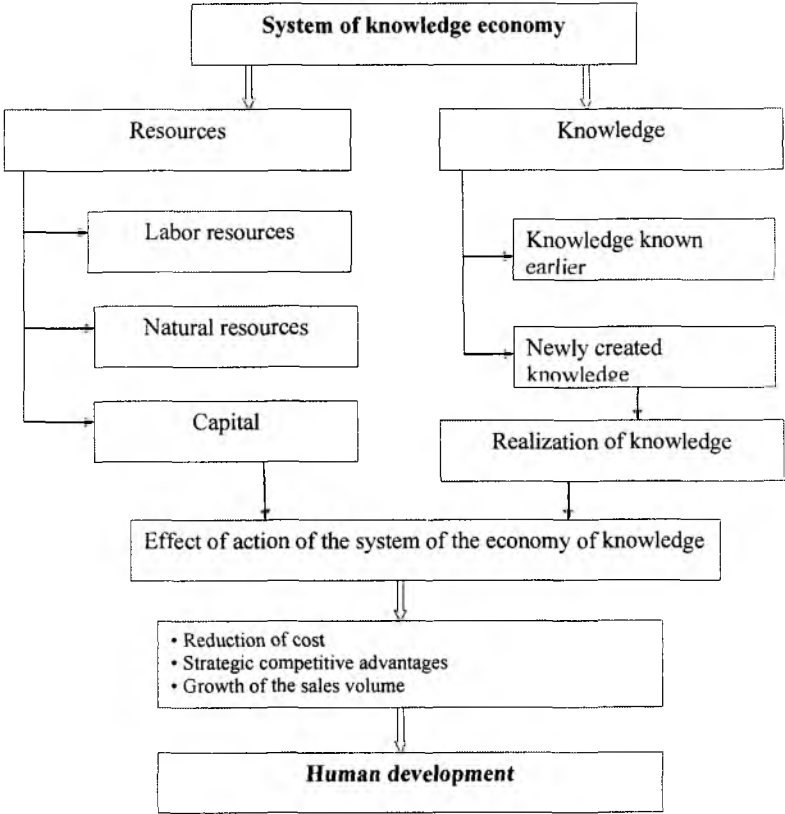
Depth of the sweeping changes connected with replacement of work with knowledge, consists that in conditions when knowledge is involved in practical processing of resources, knowledge, instead of work starts letting out as a cost source. In fact the labor theory of cost is replaced by the theory of "the cost created by knowledge" (knowledge-value). As the founder of this theory T.Sacaiya emphasizes: "we enter a new stage of a civilization in which a driving force are the values created by knowledge"<sup>1</sup>.

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<sup>1</sup> Sacaiya T. The cost created by knowledge, or future history// New industrial wave in the West. - M.: Academy, 1999. - P.338.



The knowledge economy — is an economy which creates, extends and uses knowledge for ensuring growth and competitiveness; it is an economy in which knowledge enriches all branches, all sectors and all participants of economic processes. The knowledge economy possesses high social value, is based on the principles of improvement of quality of life (Fig. 10.2).



**Fig.10.2. System of the knowledge economy**

The first stage in this system is creation of knowledge and their formalization, i.e. transferring on the material carrier. As an example of knowledge

as a product it is possible to give consultations, information, licenses, patents, the know-how, systems realized to external subjects, for example, to individuals or to foreign buyers. The effect from realization, if it has commercial character, includes obtaining the income, if social, it is growth of the social benefits, or in some cases a set of such effects.

Use of knowledge (as resource) in the system —implementation of knowledge — is first of all connected with implementation of an innovative process. It should be noted that as innovations, except for called above new knowledge generated in the system, can also be the knowledge created earlier and (or) gained outside the system. Innovations can be classified into grocery, process, marketing and organizational.

The effect of introduction of knowledge first of all is noticeable in fields of activity which are directly reflected in welfare of the person, his health, quality and life expectancy. To such innovations belong new achievements in medicine, education, social and cultural development, housing construction, providing safety of life and growth of quality of foods and nonfoods.

Decrease in prime cost of goods and services, reached, for example, due to transition to release of low expensive production, introduction of technologies causing economy of power-, labor-, material costs in production, due to improvement of delivery, growth of labor productivity— grocery, process, marketing and organizational innovations, allows to increase availability of goods to the population. A part of production and organizational innovations consider humanization of work and training of employees, for example, include professional development of performers, automation of routine operations, intellectualization of actions, formation of organizational culture and lead to positive social and cultural changes. Besides, generation and introduction of knowledge develops intellectual potential of innovators and due to dissemination of knowledge— also the system as a whole.

Introduction of the knowledge defining decrease in prime cost and updating of goods and services produced, more effective approaches to their advance and

realization, provides for the organizations a growth of profit received, strengthening of strategic advantages, growth of loyalty of buyers, formation of an image of the highly effective innovator, expansion and fixing of the share of the market, growth of volumes of export. It, in turn, determines growth of the income of staff of the organizations and economic growth of all country. Besides, at the expense of the state policy of redistribution of income, the financing of education, cultures, social protection of the population increases.

According to the United Nations Development Program (UNDP) the index of gross domestic product of the country directly depends on an index of education (tab. 10.1).

**Table 10.1.**  
**Direct dependence of the index of GDP on the index of education<sup>1</sup>**

Countries	Index of the level of education	Index of the Gross Domestic Product
Countries with very high level of development of human potential	0,976	0,970
Countries with high level of development of human potential	0,804	0,871
Countries with medium level of development of human potential	0,679	0,539
Countries with low level of development of human potential	0,368	0,320

The latest researches of foreign scientists testify sharp increase of the value of intellectual funds of a company in comparison with its material resources and financial capital. As a whole their ratio fluctuates between 5:1 and 6:1. It is counted also that a dollar spent on researches and development, makes eight times bigger profit, than a dollar invested in equipment. The share of the human capital in national wealth (tab. 10.2) grows as well.

At the present stage Uzbekistan also needs to carry out transformations in order to depart from the strategy of growth focused on production and deliveries of resources and to pass to a strategy, focused on factors of demand and formation of

<sup>1</sup>Real wealth of the people: ways to development the person / Report on human development– 2010. 20th anniversary edition. – M.: Publishing house “Ves Mir”, 2010. P.143-146.

chains of value added, introduction of valuable innovations and use of knowledge for achievement of steady rates of economic development in the XXI century<sup>1</sup>.

**Table 10.2.**  
**Cost of human capital and its share in the national wealth**

<b>Countries</b>	<b>Cost of human capital, USD billion</b>	<b>Share of human capital in the national wealth, %</b>	<b>Share of national human capital in the world human capital, %</b>
USA	99,0	77,0	26,0
Russia	30	50,0	8,0
China	25,0	77,0	7,0
Brazil	9,0	74,0	2,0
India	7,0	58,0	8,0

Therefore in Strategy of increase of welfare of the population of Uzbekistan this problem takes a key place. Three out of eight major factors defined in the Strategy as important for ensuring economic growth during the period until 2015, directly raise the questions of introduction of the economy based on knowledge:

1. Education and training of personnel. It is provided preservation of high level of literacy among adult population at the level of 99,3 – 100,0% on the basis of the National program of personnel training and the Program of development of school education. One of the key purposes is inclusion of computer literacy in the program of all comprehensive schools, and also ensuring access to the Internet at least 50,0% - by 2015. It is also planned an increase in potential and expansion of opportunities of satisfaction of the needs of scientific and technical development and training for skills which are demanded in certain branches of economy. For improvement of the system of continuous education there will be continued construction of new and reconstruction of existing educational institutions, by their equipment with facilities.

2. Science, equipment and innovative systems. First of all, it is planned formation of accurate system of definition of priorities in the sphere of research and development, commercial introduction of innovations and means. Much

<sup>1</sup> Knowledge Economy: prospects for Uzbekistan// Economic review, 2008, No. 5. Pages 12-18.

attention will be paid to partnership strengthening between research institutes, higher education institutions and production, to assistance in creation and management of venture funds and investment companies for financing of innovative investment projects and strengthening of protection of intellectual property and its value.

3. Information and communication technologies. Growth of sector of information and communication technologies will be considered as the major sector providing success of formation of economy, based on knowledge. By 2015 information in electronic form has to be used in all areas and industries and economy (government agencies, business community, the population as a whole). Use of the Internet as improvement of public administration (the electronic government), logistics, business services, rendering the state and social services will considerably extend. Application and use of Internet technologies in increase of overall effectiveness of both economy and systems of public administration will be developed and diversified.

In Uzbekistan the Program of development of telecommunication technologies, networks and communication infrastructure for 2013-2020 has been accepted. Now such large investment projects, as "Modernization and expansion of the long-distance centers of switching on technology of networks of new generation (NGN)", "Development of optical networks of broadband access on the FTTx technology", "Development of the mobile CDMA-450 network with EVDO technology introduction" and others are being realized. Their successful conclusion will allow the republic to be among the world countries with a high level of development of modern means of communication and information, to expand the corridor of business communications.

Transition to digital television by installation of 5 digital television transmitters in the Dzhizak, Tashkent, Fergana and Khorezm regions with ensuring coverage with digital telecasting more than 45,0% of the population of the country is carried out step by step.

Electronic forms and systems of transmission of data, statistical, financial and tax statements are being implemented consistently. Now the tax reporting in an electronic format is handed over by over 89,0% of subjects of business, and the statistical reporting – 86,0.

In 2011 there was introduced modern system of government procurements at the exchange through the electronic auction, providing the high competition and fairness of bidders. In 2013 the volume of the government procurements made at the electronic auction, comprised UZS 417 billion, the economy of budgetary funds reached following the results of the auction made UZS 83 billion.

To the development of new hi-tech productions contribute the special industrial zones created in the republic. From the moment of creation of the special industrial zone "Navoi" in its territory over 19 investment projects were put into operation of production for a total amount of 100 million US dollars. On the basis of high technologies there is organized production of modems and TV-sets, electronic counters of electric power, power cables, heating and water-heating boilers, mobile and stationary telephone sets, ready medicines, and others. In 2013 by the enterprises of this zone there were produced goods for the sum over UZS 100 billion.

In the territory of the special industrial zone "Angren" for short term there has been arranged production of hi-tech products on 5 projects for total amount about 44 million dollars – energy saving LED lamps, copper pipes of various diameter, briquette coal, and also there has been completed construction of a new plant on production of sugar and other enterprises.

Considering the experience gained, in 2003 in the Dzhizak region there was created the special industrial zone "Dzhizak" with a branch in Syrdarya region in which works on advancing development of transport, production and engineering and communication infrastructure are actively conducted. In 2014 in the territory of the zone the first 3 projects with participation of the Chinese companies for total amount about 6 million US dollars on production of mobile phones and other hi-tech production will be realized.

At the same time a serious barrier to increase of competitiveness of the country in the external and internal markets are high costs of production, a high material capacity and power consumption of products, excessive commitment to tax privileges and preferences in a number of branches of the economy. So, more than 140 enterprises, out of them 67 large enterprises, remain unprofitable.

In the course of formation of the economy based on knowledge, it is required transformation of traditional functions of education reflecting an innovative vector of its development, with transition to qualitatively new level of rendering educational services. This transformation provides emergence of new functions, including:

- innovative and venture, i.e. connected with introduction of the innovative products created by an education system, in concrete economic practice;
- enterprise, i.e. connected with development of economic independence of education, ability to profitably and competitively sell results of the educational, scientific and production activity in the markets;
- educational maintenance of a career, i.e. connected with development of system of continuous education and inclusion in it service blocks of increase of professional education.

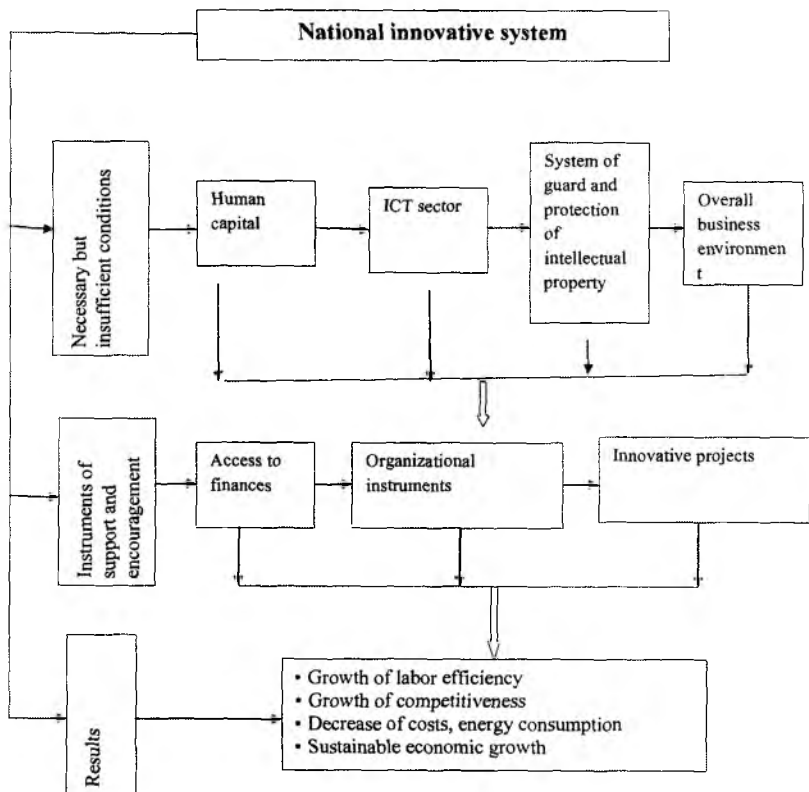
The knowledge economy is an innovative economy that means formation and development of national innovative system. The national innovative system – according to H. Friedman is *"a network of institutes in the public and private sector, whose activity and relationship initiates, modifies and distributes new technologies"*<sup>1</sup>.

In the national innovative system (Fig. 10.3) the first group of elements – the human capital, sector of the information and communication technologies (ICT), system of guard and protection of the rights to intellectual property, and also the favorable general business environment. These elements are necessary, but are insufficient.

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<sup>1</sup> Freeman C. *Innovation in Japan*. 1987.

Therefore it is required instruments of support and encouragement of national innovative system. Instruments of financial support of innovations (grants, the preferential and/or guaranteed crediting), organizational tools (scientific and technical business incubators, science and technology parks, departments on a transfer of technologies) belong to this second group of elements, and naturally – new products, services, technologies, a know-how, patents.



**Fig.10.3. National innovative system**



The result of innovative activity is contribution to growth of labor productivity, growth of competitiveness of domestic goods and services in the world markets, decrease in expenses and power consumption, and as a whole – in the steady growth of economy.

In Uzbekistan there have been undertaken measures directed to improvement of coordination of development of science and equipment, financing of innovative activity, expansion of communications between science and production, state programs on modernization, diversification and localization of branches of economy are realized.

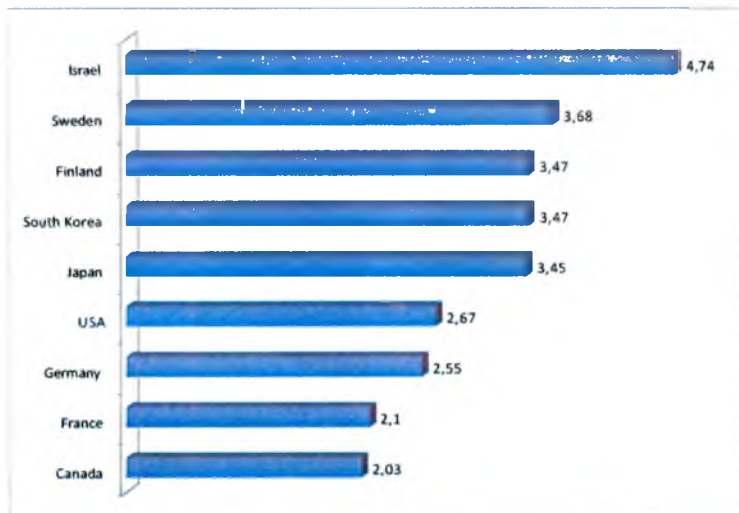
Competitive advantages of Uzbekistan are not only in its natural riches, created in the years of the modern diversified industry, but also in the available scientific and technical potential and qualified personnel, large scientific base. In the sphere of human capital indisputable advantage is the degree of the general education of the population and existence of scientific potential.

In the republic there function more than 220 research establishments, higher educational institutions, developmental organizations, scientific and production enterprises, small innovative centers. In the sphere of "Science" there are occupied more than 34,0 thousand people, out of which 2721 doctors of science, 9231 candidates of science and more than 14,0 thousand researchers.

For the organization of innovative cooperation of higher education, science and production in Uzbekistan there is created a peculiar model of innovative groups of professors-teachers, competitors, talented students of bachelor degree and master's degree of higher education institutions, as well as research associates of research institutes, representatives of profile manufacturing enterprises and organizations.

Development and deployment of innovations demand considerable expenses of financial resources. Expenses of enterprises, organizations and the state on financing of innovations – is a criterion of the level of technological development of the country, its competitiveness in the world markets and the potential of development (Fig. 10.4). As it is obvious from the figure, ten developed countries

of the world spend on research and developmental works (Research and development) from more than 2,0 to 4,74% of GDP.

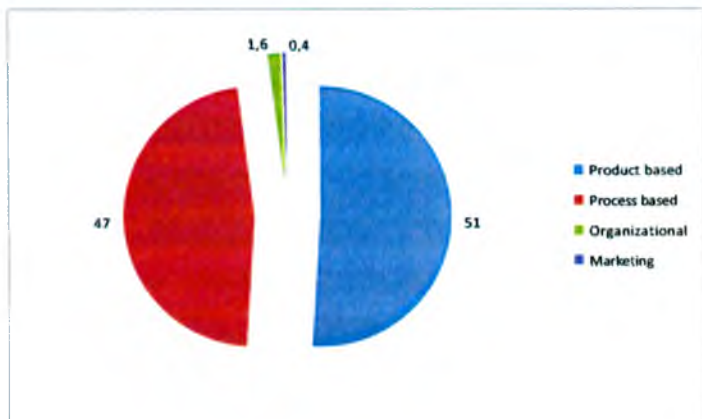


**Fig. 10.4. Specific weight of expenses on research and development in GDP in developed the countries of the world, (%)**

Also in Uzbekistan the state role in development of scientific and technical potential, the sphere of scientific researches and development is considerable. The total amount of expenses on all types of innovations (technological, marketing and organizational) comprise 0,7% of the gross domestic product that is about 2,5 times more than the costs of research and development (Fig. 10.5). From these funds the main share goes to technological innovations – 97,7%.

All branches of economy of the republic carry out modernization of production activity. From the total amount of expenses for technological innovations, 67,5% of expenses of the enterprises went for acquisition of machines and equipment. On research and development of new products, services and

methods of their production most of all funds are spent by enterprises and organizations of agriculture and forestry (95,8%), education, culture, science and scientific service (56,3%).



**Fig. 10.5. Structure of expenses for innovations In Uzbekistan on types**

The analysis of innovative processes in the developed countries shows that the government stimulates participations of the business sector in financing of researches and development. As a result now the given sector provides considerable part of expenses on researches and development: 56,0% - in the European Union, 63,0% - in the USA, 74,0 – in Japan. In Uzbekistan this indicator doesn't exceed 50,0%.

The most important indicator of innovative activity of branches of economy is release of innovative production. To release of innovative production the big contribution is made by the enterprises of mechanical engineering and metal processing, the industry of construction materials and fuel industry. So, the share of innovative production in the total amount of made production in branches of mechanical engineering and metal processing reached 38,8%, in the industry of construction materials – 12,3%.

In the increase of hi-tech production the leading role belongs to mechanical engineering industry, especially the enterprises of automobile industry and means of communication. The share of hi-tech production in output and in the chemical pharmaceutical industry enterprises grows.

The reached results and occurring high-quality changes in national economy allow to set new tasks of transition to the following stage focused on achievement of the objectives of sustainable development in the long-term period. Now the most part (87,0%) energy consumed in Uzbekistan is developed by thermal power plants. Thus the main share in structure of power consumption belongs to oil and gas resources.

In Uzbekistan there are great opportunities for widespread introduction of renewables. Prospects of use of renewables are confirmed by that the gross potential of water resources, solar energy, wind power, biomass three times exceeds the current annual volume of consumption of fossil fuel. Considering existence of potential in the sphere of development of renewables, in the country a number of measures for expansion of use of nonconventional power sources, in particular in the field of solar energy were undertaken. For this purpose a special scientific center is created in the republic.

Main objectives and structure of investments into development of nonconventional renewables in the republic provide: ensuring by 2030 of electrification of remote farms due to introduction of photo-electric converters. By this time ensuring 3,0% of development of the electric power at the expense of photo-electric converters is provided as well. And modernization of capacities of heat supply and providing solar fuel installation allow to provide up to 80,0% of the need for hot water supply by 2030<sup>1</sup>.

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<sup>1</sup> Centre for economic researches: "Opportunities and prospects of development of "green" economy in Uzbekistan"

### 10.3. Basic directions of improving human development

The long-term goal which Uzbekistan set before itself is *"to be among the modern developed, democratic states, to provide to the people worthy living conditions and a worthy place in the world community"*<sup>1</sup>.

This task is conformable to the Purposes of development of the millennium, but achievement of them requires further improvement of human development.

Providing worthy living conditions to the population, first of all, depends on rates of economic growth, enhancement of national wealth. Proceeding from it, the priority directions of social and economic development of the country are determined:

- structural transformations and advancing development of high-tech modern industries and the productions, directed to increase of competitiveness and strengthening of positions of Uzbekistan in the world markets;
- modernization, technical and technological re-equipment of the production, the accelerated updating of the leading branches of economy;
- providing in the next five years growth rates of outputs of an industrial output not less than by 60,0%;
- technical modernization of agricultural production;
- meliorative improvement and increase of efficiency of lands;
- improvement of selection work and increase of efficiency of agricultural production;
- stimulation of attraction of foreign direct investments;
- the complex and accelerated development of infrastructure, transport and communication construction;
- creation of the most favorable business environment for business development.

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<sup>1</sup> I.A. Karimov The concept of further deepening of democratic reforms and formation of civil society in the country // Narodnoe slovo, November 13, 2010.

Realization of these tasks is also directed to the successful solution of the main objective of the Strategy of increase of welfare of the population – increase of the standard of living of the population and low-income reduction twice by 2015.

Increase of welfare of the population of the country depends not only on high rates of economic growth, but also on productive employment, especially of the manpower in rural areas. Official indicators of unemployment across Uzbekistan are insignificant – no more than 0,4-, 0,5%. It is explained by imperfection of the method of calculation of unemployment according to which only the persons registered at labor exchange are considered as the unemployed. The unemployment rate estimated on the basis of selective inspections of employment of the population, carried out by the Ministry of Labour and Social Protection of the population of the Republic of Uzbekistan comprises 3,5-4,0% (without seasonal and part-time employment). By data the World Bank, without single works, departure abroad for earnings and some other, unemployment rate in the country reaches 6,0%.

By the international criteria this unemployment rate is also considered insignificant. However, thus, it is necessary to consider that the considerable number of able-bodied population is occupied at work for an incomplete working week or part-time, has seasonal or temporary job, casual daily earnings. Low income of the population in the budgetary sphere and agriculture also strengthens feeling of defective employment.

These and other problems cause distribution of informal sector of employment, in which according to some information there is occupied not less than a third of economically active population. Scales of illegal labor migration abroad increase as well.

Considering it in the conditions of further liberalization of economy, regulation of the labor market has to be carried out by mainly economic mechanisms, basic of which are:

- *creation of new effective workplaces.* Recently in Uzbekistan about 1,0 million workplaces are created annually. Their main share comes to small business and private entrepreneurship. But these workplaces are characterized by low stability and inefficiency. Thus implementation of investment programs and programs of localization of production yet had no essential impact on creation of new effective workplaces;

- *formation of rational branch and territorial structure of employment due to the accelerated development of the services sector, especially in rural areas and areas with mono branch structure of economy.* As the world practice in many developed countries having sustainable economic growth shows, the share of the employed in the services sector makes not less than 50,0% and is provided by stimulation and support of branches of social and market infrastructure, development of branches of production of goods at the expense of intensive factors and growth of labor productivity.

Creation of new workplaces, job security of able-bodied population is connected with further development of small business and private entrepreneurship. Encouragement of development of private sector and investments will demand institutional changes for protection of the private property and the rights of owners. Any owner observing laws and instructions has to be confident in not infringement of his/her property. Growth of investments is possible only when investors will be sure not only of preservation of the capital, but will count on return from the investments. Therefore in Uzbekistan it is provided the adoption of the law "On protection of private property and guarantees of the rights of owners" which is urged to fix the main guarantees of the state in relation to the private property which is a basis of market economy.

The originality of the demographic situation of Uzbekistan, problem of human development demands also the corresponding social infrastructure. Occurring large-scale changes assume also formation of a new approach to social and economic development, especially in rural areas as the majority of the needy population lives exactly there.

Despite vigorous measures taken in recent years for improvement of the meliorative condition of cultivated areas quality of farmlands worsens because of salinization and degradation caused by their inefficient use and insufficiency of investments into irrigating and drainage systems. At the same time the volume of irrigated fertile lands is annually reducing, and the country people continue to grow.

It leads to increase in unproductive employment in agriculture. Development of farmer movement in Uzbekistan means, and will mean labor redistribution. Transformations of the shirkat into farms lowered labor costs on the average by 8,0-10,0%. Along with it the condition of agricultural grounds reached such a level that in short-term and medium-term prospect it isn't necessary to expect growth of efficiency. Therefore in the conditions of redistribution of manpower of the village it is the extremely important that new workplaces in nonagricultural sector, such as the light and food industry, production of construction materials, etc. were created in parallel.

Development of production and social infrastructure in rural areas is inseparably linked with the solution of the task on the accelerated development and placement of small productions, extreme importance of development of which is defined by the following regional conditions:

- concentration of a considerable share of reserves of manpower in the rural settlements, the population of which is characterized by weak territorial mobility and high growth rates;
- impossibility of rational use unevenly placed natural and raw, including agricultural, resources, by big and large enterprises;
- the historical traditions, the developed labor skills and psychology of local population, big tendency to work in family conditions or small collectives.

One of prime needs of the person is the need for housing, services of other elements of social infrastructure. Rural households much less often have access to tap water, a central heating and central sewer system. It promotes inequality in the



standard of living of urban and rural people, being one more problem demanding considerable investments.

In these conditions the important role belongs to implementation of the program of development of the production and social infrastructure, the purpose of which consists in creation of necessary conditions for rational and effective use of natural and economic potential, solution of pressing social and economic problems.

To the solution of the burning issue of productive employment, including manpower of the village will contribute not only quantitative increase in workplaces, but also not in small degree the disproportion regulation on labor markets. It is known that in them at a stable demand for skilled workers obvious surplus of unskilled labor is observed. The real sector of economy lacks engineers; there is a need for the educated, skilled administrative personnel for small enterprises, and also for agricultural experts.

The main requirement to the education system from economy which applies to be "knowledge economy", can be formulated as follows – the education system has to provide the country:

- highly educated and constantly reproduced personnel of technical and scientific workers, capable to generate scientific and technical opening of innovative type and to be open to further improvement, knowledge and introduction of innovations;
- highly professional personnel of managers, capable to manage production development taking into account modern requirements;
- highly professional personnel of working specialties, capable to work at the modern equipment and to use modern technologies.

It is necessary the development of the Concept of the state educational standards in which there would be systemically stated main competences, knowledge, skills and abilities which a pupil at each level of secondary education has to possess. At the same time, the sum of competences, knowledge and skills of a comprehensive school has to be coordinated to the state educational standards of secondary vocational, professional education, providing continuity of these

standards not only regarding the volume of knowledge, but also regarding skills and competences.

A special place in the education system of Uzbekistan is taken by professional education. The state, considering processes of modernization and technical re-equipment of branches of national economy, undertakes cardinal measures directed to raising of professional education to a qualitatively new level.

However, forming of a new system of professional education happened in conditions when the new production structure of national economy was only formed. This system until recently generally was focused rather on the supply, than on demand of labor market.

Therefore it is necessary to coordinate strongly the parameters of development of the system of training of specialists to parameters of economic development of branches and territories, for balance of supply and demand of the labor market on workers of various profiles.

Experience of the developed countries shows that financing of educational institutions of professional education proceeding from results and quality of the work, estimated on success of employment of graduates forces educational institutions to reorient quickly preparation volumes according to requirements of the labor market. Thus educational institutions of professional education are provided with the right to independently define preparation volumes on the specialties demanded on the labor market on condition of ensuring the rated capacity of educational institution.

One of the important conditions of maintenance of continuity of innovative process in the economy is the ability of the system of the higher education to work for an advancing. Administrations of higher education institutions have to realize that the entrant who has arrived today will be able to possess necessary knowledge and competences to find a job in 4-5 years. However the purposes put in existing mechanisms of standardization of educational process at the higher school of the country, not fully corresponding to needs of innovative economy and society. The

state educational standards are poorly connected with requirements and expectations of labor market.

In the National program for personnel training the tasks of integration of science and production are defined. However in the organization of interaction of higher education institutions and production, the role of higher educational institutions remains passive. In higher education institutions effective mechanisms of motivation to innovative activity are not fully used. It is required a change of the principles of research and development organization in higher education institutions, transition to problem and applied orientation of innovative activity in the form of orders for concrete practical results.

Strategy of improvement of health of the population isn't imaginable without radical improvement of medical services. Development and deployment of the concept of improvement of quality is a priority direction of reforming of health care and demands stage-by-stage adaptation of system to the new social and economic conditions, new technologies and new knowledge.

Quality of medical care is a multiple-factor task. The solution of this task substantially depends on:

- competence of experts;
- use of the latest developments of science when rendering medical services;
- use of modern equipment, devices, tools which are applied during treatment;
- availability of effective medicines and schemes of their application;
- organization of effective system of information support.

Presently there is big differentiation of doctors on their qualification: the most qualified doctors are concentrated in highly specialized capital clinics, clinics of the regional centers, in ambulance divisions. In the majority of other establishments the skill level of the medical personnel doesn't meet the modern requirements.

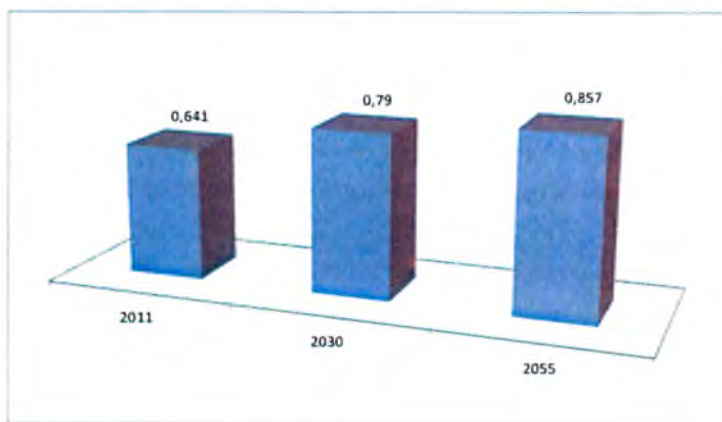
For improvement of quality of training of specialists of a medical profile it is necessary not only to improve training programs and education methods, to raise

level of the teachers, but also to introduce a system of continuous training of doctors and personnel of an average link of health care.

It is also required development of standards of effective medical care in primary link of health care, introduction of monitoring of practice of rendering medical care.

Preventive medicine, introduction of the concept of a healthy lifestyle and improvement of quality of medical services is a strategic task in realization of the national Purposes of development of the millennium in the field of health care.

These and other strategic objectives of Uzbekistan are first of all aimed at further human development. Therefore not incidentally in the Report of the Oxford University "Reducing global poverty Patterns of potential human progress" it is predicted that the Index of human development in Uzbekistan by 2030 will reach 0,790, and by 2055 – 0,857 or in comparison with 2011 will increase by 0,216.



**Fig.10.8. Forecast of the Index of human development in Uzbekistan.**

The concept of human development is a qualitatively new, perspective approach to understanding of public progress at the head of which is put expansion of opportunities of a vital choice of the person. For ensuring sustainable human

development it is necessary to make possible completion of all types of the capital – natural, physical, especially human. Only thus it is possible to create such environment in which each person will be able to develop own abilities, and possibilities of this development will extend more and more.

### ***Control questions***

- 1. What assumes a sustainable development?*
- 2. What purposes are set in the Framework programme of the United Nations on assistance to development in Uzbekistan (UNDAF 2010-2015)?*
- 3. Tell about essence of "knowledge economy".*
- 4. What elements does the national innovative system contain?*
- 5. What provides the priority directions of social and economic development of Uzbekistan?*
- 6. What tasks are set for the higher school in modernization and diversification of branches of national economy?*

## GLOSSARY

**Absolute poverty line** – is the minimum level of life defined on the basis of physiological needs of the person for food, clothes and housing, i.e. on the basis of a set (basket) of goods and services, sufficient for satisfaction of basic needs of the person.

**Poverty** – extreme insufficiency available for a person, a family, a region, a state of property, goods, money for normal life and activity.

**"Poor" families** – families in which the per capita income is below or corresponds to a living wage.

**Unemployment** – a social and economic situation at which a part of active, able-bodied population can't find work which these people are capable to perform.

**Unemployed** – a person at the able-bodied age, able and wishing to work, but not having work and labor income owing to circumstances. In the Law of the Republic of Uzbekistan "On employment of population " it is specified: "The unemployed are considered able-bodied persons aged from 16 years until reaching pension, which have no work and earnings (labor income), are registered in public service of employment as the persons who are looking for work, ready to work, to have vocational training or retraining and to which this service didn't make offers of suitable work".

**Welfare** – the characteristic of social and economic living conditions and satisfaction of the needs of the population. Welfare represents the system including several elements: health, including demographic conditions; education, including literacy; food, clothes; consumption and accumulation funds; working conditions, employment, work organization; social security; human freedoms.

**Wealth** – abundance in the person or society of material and non-material values, such, as money, means of production, real estate or personal property. It is possible to refer to wealth also and access to health care, education and culture. In sociology rich is considered that person who possesses considerable values in relation to other members of society. In economy the wealth is defined as a

difference between assets and liabilities at present time. The wealth in the meaning of possession of values is translated into English as Wealth, wealth that is an extreme superiority over other members of society as Richness. The countries considerably surpassing other countries in wealth are usually called developed.

**"Rich" families** – families, in which the level of per capita income is above the rational consumer budget.

**Gross Domestic Product (GDP)** – one of the major macroeconomic indicators, expressing the cumulative cost of the final product estimated in market prices (production, goods and services), created within a year within a country with use of factors of production belonging both to this country, and other countries. The gross domestic product can be estimated in the following methods: a) as the sum of value added in all branches (a production method); b) as the sum of the income from the factors of production used in a year (a distributive method); c) as the sum of expenses on acquisition of goods and services created within a year in the country (a method of end use — a stream of expenses). In the system of national accounts Gross Domestic Product is used as a key macroeconomic indicator.

**Gross National Product (GNP)** – unlike the gross domestic product (GDP), reflects the cumulative cost of final goods and the services created not only within the country, but also beyond its limits. GNP is calculated as well as gross domestic product, but differs from it in a size equal to balance of calculations with foreign countries. If to an indicator of gross domestic product to add a difference between receipts from primary income from abroad and primary income gained by foreign investors in this country, it is the GNP size. ( $GNP = GDP + \text{Balance of primary income gained from abroad or transferred abroad (to such first income usually they refer compensation, the income from property in the form of dividends)}$ ).

**Material wealth** – real assets of long using which directly give return during a long period of time. Material, material wealth is, first of all, the capital and the land.

**World Bank** – the international financial organization created for the purpose of organization of financial and technical assistance to developing countries. It was founded on December 27, 1945. Consists of 184 member countries, including the Republic of Uzbekistan. Now according to the Millennium Declaration the World Bank concentrated its activity on achievement of the objectives of development of the millennium.

**Reproduction** – a reconstruction of the spent factors of production (natural resources, labor, means of production) by means of their subsequent production.

**Guest worker** (German "Gastarbeiter" — "immigrant worker") — a foreign worker involved from an underdeveloped country in industrially developed country.

**Hedonism** (from Greek "hédonē" — "pleasure") – aspiration of an individual to growth of welfare, for maximizing pleasure derived from life

**Gender** (English "gender", from Latin "genus" - "sort") – the social sex defining behavior of the person in society and how this behavior is perceived. If the sex is biological category where distinctions are predetermined, universal and unchangeable, the gender is a social category created by society, changes over time and from society to society.

**Gender equality** – equal rights, responsibility, opportunities, value and results for women and men, girls and boys. Gender equality means that interests, needs and priorities, both of women, and men are taken in attention - thus a variety in groups of women and men is considered.

**Globalization** – a process of the world economic, political and cultural integration and unification. Its main consequence is the world division of labor, migration (and, as a rule, concentration) in scales of all planet of the capital, labor, production resources, standardization of the legislation, economic and technological processes, as well as rapprochement and merge of cultures of different countries.

**Welfare payment** – the grant paid for the account of means of the state budget or from fund of the state social insurance.



**State social insurance** – a form of the social security which is carried out at the expense of means of the state off-budget funds.

**State revenues** – the income of the state estimated in a monetary form due to collection of taxes, duties, payments, foreign trade operations, foreign credits, foreign assistance.

**Public expenditures** – the monetary expenses of the state consisting of purchases of goods and services and transfers.

**State budget** – the estimate of the income and state expenses for a certain period of time, most often for a year, made with the indication of sources of state revenues and directions, channels of an expenditure of means.

**State pension fund** – the off-budget trust fund formed by the state from assignments of organizations, enterprises, businessmen; the state pensions are paid to citizens from means of this fund.

**Welfare state** – the state assuming the main share of social expenses.

**Literacy** (*from Greek "grammata" — "reading and letter"*) - extent of possession of the person of skills of writing and reading in the native language. Traditionally by the word "literate" they mean a person, able to read and write or only to read in any language. In modern sense it means ability to write according to the established norms of grammar and spelling.

**Humanistic economy** – economy in which a person, a personality are put in the head of all economic activity, and activity is directed to satisfaction of requirements, inquiries of the person.

**Two-factorial model of economic growth** – a model of growth of the economy, constructed on the assumption that only two factors – the capital and labor – participate in creation of the gross national product; with the increase in each of these factors, the GNP shall increase.

**Monetary income of the population** – the main form of the personal income of citizens and families, house farms received in the form of money. Monetary income is formed due to receiving salary, pensions, grants, allowances, from sale of goods.

**Monetary accumulations** – the net income of society created and realized at the enterprises and in a household, in a business, presented in a monetary form, in the form of a part of the income, profit used for accumulation.

**Monetary expenditures of the population** – expenses of citizens, families, house farms in a monetary form on acquisition of goods, payment for services, payment of taxes, contribution of collecting, making of payments, contributions, acquisition of securities, etc.

**The United Nations children's fund or UNICEF** (English "*UNICEF, United Nations International Children's Emergency Fund*") – the international extraordinary fund of help to children of the United Nations Organization. It was created on December 11, 1946 according to the decision of the United Nations General Assembly. In 1965 the UN Children's fund received Nobel Peace Prize.

**Voluntary insurance** – one of the insurance forms, arising on the basis of voluntarily signed contract of insurance between the insurer and the insured.

**Household** – one of the three main subjects of economic activity (the state, the enterprises, households). Covers economic objects and processes which are occurring where a person, a family lives constantly.

**Population income** – a set of receipts in the monetary and natural forms, received by the person, a family, a household from different sources during a certain period of time (month, year), spent for consumption, accumulation, payment of taxes.

**Natural growth of the population** — a difference between the number of the people born and died for a certain period of time.

**Natural unemployment rate** — an economic hypothesis according to which for the all-economic balance which has developed at the certain real wage, there is a certain part-time employment of the population which is result of a lack of information, barriers of mobility, demographic changes and other consequences of imperfection of a labor market.

**Okun's law** - empirical dependence between growth rates of unemployment. and growth rate of gross domestic product. The calculations, made by the author of

the law, the American economist A.M.Okun in the USA the beginnings of the 60th years of the XX century showed that unemployment rate excess for 1,0% over the level of natural unemployment lowers real gross domestic product in comparison with potential by 2,5%.

**Engel's law** – the economic law according to which the behavior of consumers is connected with the size of income gained by them and in process of growth of the income consumption of benefits by the population increases *disproportionately*. Expenses on food increase to a lesser extent, than expenses on items of long usage, travel or savings. And the structure of consumption of food changes towards better quality products. Growth of the income leads to increase in the share of savings and consumption of high-quality goods and services at reduction of the low-quality ones.

**Employment** – participation of the population in work, including study, service in armies, housekeeping, care of children and aged people. Employment is considered to be socially useful activity of citizens, which as a rule brings income to them.

**Salary** – a part of cost of the product created by labor, the income from its sale, given out to a worker by an enterprise, establishment in which he/she works, or by other employer.

**Health** – a condition of an organism at which it as a whole and all its organs are capable to carry out the functions completely; *absence of an illness, disease*. The charter of World Health Organization defines health as "a condition of full physical, spiritual, social welfare when organs and systems of a human body are counterbalanced with the surrounding production and social environment".

**Gold and foreign exchange reserves** — the state stocks of gold and the *foreign currency, being stored in the central bank* or in financial bodies, and also gold and foreign currency belonging to the state in the international currency and credit organizations.

**Hierarchy of needs** – according to which all people initially have a similar need, and the satisfaction of the needs of a higher level is caused by the necessity for satisfaction of the needs of the lowest levels.

**Investments** (from Latin "investre" — "to dress") — long-term investments of the state or private capital in own country or abroad for the purpose of obtaining income in the enterprises of different branches, enterprise projects, social and economic programs, innovative projects. Distinguish the following types of investments:

*government*, formed of means of the state budget, from the state financial sources;

*foreign* – put by foreign investors, other states, foreign banks, companies, businessmen;

*private*, formed of means of private, corporate enterprises and organizations, citizens, including both own and the raised funds.

They distinguish also *production investments* directed to new construction, reconstruction, expansion and modernization of the operating enterprises, and intellectual, put in creation of an intellectual, spiritual product;

*controlling, direct investments* providing possession of more than 50,0% of voting shares of other company, and *not controlling*, providing possession less than 50,0% of voting shares of other company.

**Investor** – a legal or natural person who is carrying out investments, making own borrowed or other raised funds in investment projects.

**Index** (from Latin "index" — "indicator", "list") — an economic and statistical indicator, characterizing in a relative form a change of economic values, parameters of economic and social processes for a certain period of time; it is calculated as the relation of final size to the initial. The index is estimated in relation to a basic index, the basic value corresponding to a certain year, accepted as a reference point. *Indexes of human development, standard of living, life cost* are most widespread.

**Index of Gender Inequality (IGI)** - measures distinctions in labor, health, knowledge, and also expansion of the rights and opportunities which negatively influence women.

**Literacy index** – a ratio between number literate and the number of all population. This ratio is ordinarily expressed as a percentage. The index of literacy characterizes the level of development of primary education.

**Quality of life index** – is developed by the company Economist Intelligence Unit, based on methodology which connects results of researches on value judgment of life in the countries with objective determinants formed of nine factors of quality of life. The index was counted in 2005. It includes data on 111 countries.

**Index of Multidimensional Poverty (IMP)** – reveals the serious deprivations which are imposed at each other in health, education and standard of living of the population of developing countries.

**Human Development Index (HDI)** – the integrated indicator counted annually for intercountry comparison and measurement of *living standard*, literacy, education and longevity as main characteristics of human capacity of the studied territory. It is the standard tool at the general comparison of the living standard of various countries and regions. The index is published within the United Nations Development Program and in reports on human development.

**Cost of Living Index (CLI)** – the indicator characterizing dynamics of prices of goods and services of consumer purpose.

**Index of human development corrected taking into account inequality (IHDI)** – discounts average achievements of the person on inequality in health, education and income.

**Indexation of income** – recalculation and change of the monetary income of the population (salary, pensions, grants) taking into account dynamics of retail prices for full or partial compensation of losses in the income as a result of inflation; one of the forms of social protection of the population from inflation.

**Innovations** – technologies, work and management organizations based on the use of achievements of science and best practices, and also use of these innovations in the most different areas and fields of activity.

**Institutionalism** (from Latin "institutum" – "establishment") – the economic doctrine giving major importance to the role which is played by institutes in the field of acceptance and orientation of economic decisions, their efficiency and economic activity in general. The doctrine arose in the XIX century. The method of institutionalism is based on studying of people, institutes of management and law, society; the subject of researches is the "economic person".

**Intellectual capital** - embodied in knowledge, abilities, experience, qualification of people. Return of such capital takes place in the form of quality and productivity of workers' labor.

**Health** – a condition of any live organism at which it as a whole and all its organs are capable to carry out the functions completely; absence of an illness, disease.

**Capital** (fr., Eng. "capital" from Latin. "capitalis" – "main") – in a broad sense it is everything that is capable to bring income, or the resources created by people for production of goods and services, invested in the business, a functioning source in the form of means of production.

**Quality of life (of a person)** - the generalizing social and economic category including not only indicators of a living standard, but also degree of satisfaction of spiritual needs, conditions of the environment surrounding the person, a condition of moral and psychological climate, a peace of mind. This concept is wider, than purely material security, directly depends on a state of health, communications in society, psychological and social status, freedom of activity and choice, on stresses and excessive concern, organization of leisure, an education level, access to a cultural heritage, social, psychological and professional self-affirmation, psychotype and adequacy of communications and relationship.

**Conventions** (from Latin "conventio" — "agreement") – the international agreements at the level of the governments of countries, providing observance of general, coordinated rules.

**Concept** – defining strategy of actions at implementation of reforms, projects, plans, programs.

**Coefficient decile** — the ratio reflecting differentiation of the income; relation of the average income of 10,0% of the most highly profitable and average income of 10,0% of the least wealthy citizens; value of this coefficient in different countries changes ranging from 5 to 15.

**Jeanie's coefficient (Jeanie's index)** — a statistical indicator testifying the extent of stratification of society of given country or region in relation to any studied sign (for example, on annual revenue level — the most frequent application, especially at modern economic calculations).

**Lorentz's curve** – the curve showing, what part of the cumulative monetary income of a country receives each share of low-profitable and highly profitable families, that is reflects as a percentage income distribution between families with different prosperity.

**Macroeconomic policy** — actions of the state, the governments directed to regulation of economy as a whole for the purpose of maintenance of its necessary state, ensuring reliable functioning, achievement of a boom, prevention of crises and recession. The most widespread purposes of macroeconomic policy: stability of the prices, high employment rate, positive foreign trade balance, economic growth.

**The International Labor Organization (ILO)** – the international organization created in 1919, its headquarters is located in Geneva. Represents a specialized division of the United Nations (since 1946), deals with problems of improvement of working conditions and social security of the population of different countries, development of recommendations about the labor legislation. In the ILO there are presented three parties: representatives of the member country

of this organization, representatives of labor unions and organizations of businessmen of the country.

**International Monetary Fund, the IMF** – specialized institution of the UN, created for assistance to the international cooperation in the monetary sphere. The IMF began its activity on March 1, 1947. Currently the IMF unites 187 states. The IMF grants short and medium-term loans at deficit of the balance of payments of a state. Granting credits is usually accompanied by a set of conditions and the recommendations submitted on improvement of a situation.

**"Needy" families** – families in which the per capita income is in an interval between a living wage and the minimum consumer budget.

**Microeconomics** (from Greek "micros" — "small") – a part, section, area of economic science connected with studying of rather small-scale economic processes, subjects, the phenomena, generally the enterprises, firms, businessmen, consumers, their economic activity, the economic relations between them, the separate markets. In the center of attention of microeconomics there are producers and consumers, adoption of decisions by them concerning outputs, sales, purchases, consumption taking into account requirements, prices, expenses, profit. The microeconomics studies also market behavior of subjects, the relations between them in the course of production, distribution, exchange, consumption. Besides, as object of studying of microeconomics serve the relations between producers, businessmen and the state in different markets.

**Minimum wage** – minimum level of compensation officially established by the state at the enterprises of any form of ownership in the form of the smallest monthly rate or hourly payment.

**Minimum consumer budget** – is the cost of material benefits and services entering a living wage, plus the minimum costs of satisfaction of the basic spiritual and social needs of the person, the organization of life and carrying out leisure.

**Monetarism** – the economic theory and practical concept of economic government according to which the defining role in economic processes, in managing is played by quantity of money in circulation and communication



between money supply and commodity. Monetarists consider emission regulation, the exchange rate of national currency, loan interest, tax rates, customs tariffs as *the main ways of impact on economy*.

**National income** - in terms of money the cost of a cumulative product newly created in the country within a year, representing the income which is brought in by all factors of production (the land, work, the capital, business). It is equal to a gross national product minus depreciation charges (depreciation of fixed assets) and indirect taxes. *The national income can be defined as the sum of all income in a year in the form of a salary, industrial and trade profit, percent on the invested capital and a land rent.*

**National product** – the cost, monetary value of volume of production, goods, services made in a national economy of the country within a year. It is accepted to allocate a cumulative, gross national product and the pure national product equal to gross, minus depreciation charges, costs of depreciation of fixed assets.

**"Privileged" families** – families in which the per capita income is in an interval between the minimum consumer budget and the rational consumer budget.

*Society* is a difficult, extensional, multilevel, open organic system based on collective activity of people.

**Estimated life expectancy at birth** – number of years which a newborn baby can live if prevailing tendencies, existing at the time of his birth, in the field of mortality indicators for concrete age groups remain without changes throughout all his life.

**Expected duration of training** – number of years of education which, as expected, the child who has reached officially established age of receipt in school can receive if during his life prevailing tendencies in the field of indicators of coverage of the population with education maintain.

**United Nations Organization (UN)** — the international organization created for maintenance and strengthening of international peace and safety, development of cooperation between the states. The name "United nations" was for

the first time used in the Declaration of the United Nations signed on January 1, 1945. The charter of the UN was approved in the San Francisco conference which took place from April till June, 1945, and signed on June 26, 1945 by representatives of 51 states. Date of the introduction of the Charter in force (on October 24) is celebrated as Day of the United Nations. On July 14, 2011, with acceptance in members of the UN of the South Sudan, the number of member states of the UN reached 193. The UN — the Nobel Peace Prize laureate of 2001 "For a contribution to creation of more organized world and world peace strengthening".

**Relative poverty line** – shows, how much is the minimum consumer basket (poverty line) relatively to the average level of prosperity in this country (region).

**Environmental protection** – a system of the measures aimed at providing favorable and safe conditions of habitat and activity of the person. Environmental protection provides preservation and restoration of natural resources for the purpose of the prevention of direct and indirect negative impact of the results of activity of the person on the nature and human health.

**Purchasing power parity (PPP)** – a ratio of two or several monetary units, currencies of different countries, established on their purchasing power in relation to a certain set of goods and services. The parity of purchasing power can be *private*, established on a certain group of goods, and the *general*, established on all public product.

**Pension** – the regular monetary payments provided to citizens at achievement of a certain age, in connection with disability, at loss of the supporter and in other cases provided by the law.

**Potential** (from Latin "*potentia*" - "*power*") – set of opportunities, sources, means, etc. which can be put in action, are used for the solution of certain tasks, achievement of goals, opportunity of an individual, society, the state as a whole.

**Purchasing power of the population** – quantity of goods and services which the population is capable to get according to money available for people and at price level on goods and tariffs for the services, developed in the country.

**Consumer basket** — a settlement set, range of goods characterizing typical level and structure of monthly (annual) consumption of the person or a family. Such set is used for calculation of the minimum consumer budget (living wage), proceeding from the cost of a consumer basket at established prices. The consumer basket forms also base of comparison of settlement and real consumption levels.

**Applied economy** – the part of economic science studying real economic objects and processes, urged to serve practical economy.

**United Nations Development Program (UNDP)** – the organization under the UN on assistance to the participating countries in the field of development. UNDP gives help to the governments in carrying out researches and researches of natural resources, in creation of educational institutions, in development of energy resources, provides consulting and expert services, trains experts, delivers the equipment etc. The help of UNDP is gratuitous. UNDP was created in 1965.

**Living wage** – the cost of the minimum composition and structure of consumption of material benefits and services necessary for ensuring physical activity of the person.

**Surplus of the budget** – positive balance of the budget, excess of the income over expenses.

**Mental health** is characterized by level and quality of thinking, attention and memory development, degree of emotional stability and development of strong-willed qualities.

**Labor force** – is a carrier of abilities and qualities which can be productively used in the course of work.

**Developing countries** – the countries with weak developed economy, low economic potential, backward equipment and technology, unprogressive structure of the industry and economy as a whole, trying to break a backwardness barrier, to come to the level of the developed countries.

**Ratification** – the approval by the supreme public authority of the international treaty signed by the authorized representative of the state.

**Real wage** – the salary estimated, defined in the form of quantity of the benefits, consumer goods and services which can be purchased for it. The real wage is defined both by the size of a nominal salary, and price level on consumer goods and services, and also the taxes paid from a salary. The real wage decreases in the presence of inflation, if inflation isn't compensated by increase, salary indexation.

**Real sector of economy** – the branches making a material and material product, non-material forms of wealth and service, except for operations in the financial and credit and exchange spheres which aren't carried to this sector.

**Regional economy** – 1) economy of the region, the territory; 2) the part of economic science studying regional economic processes.

**Labor market** – the sphere of formation of supply and demand on labor. The labor market is possible only provided that the worker is the owner of the ability to work.

**Savings, accumulations** – a part of the monetary income of the population which people postpone for future purchases, satisfaction of future requirements; represent a difference between the disposable income and consumer expenses.

**Synergy, synergy effect** (from Greek "synergós" — "together operating") – increase of efficiency of activity as a result of connection, integration, merge of separate parts in uniform system due to so-called system effect.

**Social protection** – a system of the actions, carried out by the state and its various structures, on providing the guaranteed minimum sufficient living conditions, support of life and active existence of the person.

**Social policy** – a policy pursued by the state, a course of actions concerning implementation of social programs, maintenance of the income, a standard of living of the population, employment, support of branches of the social sphere, prevention of social conflicts.

**Social assistance** – care of the state, society about the citizens needing the help, assistance in connection with age, state of health, social status, insufficient

security with a subsistence. The social assistance – support in the monetary and/or natural form, provided taking into account legislatively established guarantees on social security. Social assistance is given at the expense of means of local authorities, the enterprises, off-budget and other funds.

**Social justice** – the concept including ensuring equal opportunities of individuals to participate in work, compensation according to its quantity and quality, satisfaction of urgent requirements of the population with use of the public benefits, prevention of excessive polarization in distribution of the income, wealth, rational use of positive abilities of people.

**Social sphere** – the enterprises, organizations directly connected and defining an image and a standard of living of people, their welfare, consumption.

**Socially vulnerable segments of the population** – socially unprotected segments of the population, citizens, families possessing low level of income and saved-up wealth. Elderly lonely people, disabled people, large and incomplete families are mainly referred to them, and also the families which have lost the supporter, the faces having the income are lower than a living wage.

**Social health** is defined by the moral principles which make a basis of social human life, i.e. its activity in concrete human society. It is characterized, first of all, by the relation of the person to work, active rejection of asocial customs and the habits contradicting a normal way of life.

**Social security** — a form of expression of social policy of the state, aimed at material providing of a certain category of citizens from means of the state budget and special off-budget funds in case of approach of the events recognized as the state socially significant (at this stage of its development) for the purpose of alignment of a social status of citizens in comparison with other members of society.

**Social insurance** — the system of providing established, controlled and guaranteed by the state, supports of aged, disabled citizens at the expense of the

state target off-budget Social insurance fund, and also other collective and private insurance funds.

**Social institute** – is a stable association of people in collective activity for the purpose of ensuring own reproduction and development which makes the values necessary for reproduction and development of society. Historically initial social institute is a sort – a family in which all the necessary was carried out for its life and function development. These functions in the future began to carry out separate social institutes of which social subsystems and spheres of public life were formed.

**Socially focused economy** — the economy, functioning of which is urged to satisfy first of all needs of the person, families, people in the material and spiritual benefits, to provide social development, to guarantee social justice.

**Social living wage** – besides a physiological minimum includes costs of satisfaction of the minimum social and spiritual needs, characteristic for a level of development of this country.

**Average duration of training** – number of years of the education, received by persons at the age of 25 years and older, during the life, based on an indicator of educational level of the population, counted in number of years of training on the basis of the theoretical duration of each level of the education obtained.

**Life cost** – the cost of the vital benefits, the services necessary for the person, a family for the life, estimated in established prices.

**Insurance** – 1) creation at the expense of funds of the state, the enterprises, the organizations, citizens of special reserve funds (insurance funds), intended for compensation of damage, losses caused by adverse events, accidents. From means of insurance funds the insured sum of a certain size is paid to victims. Insurance is carried out by government bodies, insurance societies, companies. Life, human health, property of citizens and enterprises, vehicles, transported freights, risk, responsibility can be object of insurance; 2) insurance social, carried out by insurance pension funds, represents accumulation of money of workers, the

population, for rendering to them the monetary help, monetary payments in the future.

**Tripartism** – the term characterizing the principle and practice of tripartite consultations with the purpose of development of the compromise tripartite agreement of labor unions, businessmen and representatives of the state in the person of the governmental organizations.

**Labor potential** – is the personified labor considered in total of the qualitative characteristics.

**Manpower** – able-bodied population at able-bodied age and working persons younger and older than able-bodied age.

**Able-bodied population at able-bodied age** – by the current legislation of the Republic of Uzbekistan, the person of able-bodied age (the man aged from 16 till 60 years and the woman aged from 16 till 55 years), except for unemployed disabled people of the first and second groups, and the persons receiving pension on age on favorable terms.

**Physiological minimum (the minimum consumer basket)** includes costs of the products necessary for satisfaction of the main physiological requirements. It is a cost assessment of a natural set of the food considering diet restrictions and providing minimum necessary quantity of calories.

**Physical health** — the natural state of an organism caused by normal functioning of all its bodies and systems.

**Poverty level** – usually calculated either in the form of a ratio with the average income in the country, or a method of direct calculation.

**Unemployment rate** – the relation of the number of the unemployed to total number of the employed in economy.

**Level of literacy of adult population** – a share literate at the age of 15 years and older which are able to read and write short, simple message on the everyday life with understanding.

**Standard of living** - level of *material* welfare, satisfaction degree by people of material needs. The main indicators of the standard of living are the population

income. Usually it is defined by size of gross domestic product or gross national product per capita.

**Rate of inflation** – the speed of measurement of the prices for a certain period (month, year), defined by the size of their gain as a percentage for this period; is established on a consumer price index and the prices of means of production.

**Employment rate** – number of the employed in a total amount of labor.

**Level of maternal mortality** – number of cases of maternal mortality on 100 000 live-born. The maternal death is defined as death of the woman during pregnancy or within 42 days after the pregnancy termination.

**Level of infantile mortality** – probability of death during the period between the birth and achievement of age of 1 year, on 1 000 live births.

**Living conditions** – living conditions in the country, characterized by level of the income of the population, a measure of providing with the vital benefits, services, saturation of the market with consumer goods, stability of a social and economic situation.

**Physical capital** – one of defining factors of production; the means of production, the made products (cars, machines, buildings), participating in production of goods and services.

**Natural person** (individual) – the citizen, the person participating in economic activity, acting as the full subject of this activity. To natural persons they refer citizens of this country, foreign citizens, stateless persons who act in economy as independent subjects, possess the right personally to perform certain economic operations, to govern the economic relations with other persons and organizations, to enter the relations with legal entities. The natural person acts from own name, doesn't need creation and registration of firm, enterprise that is necessary for legal entities.

**Financial capital** – the monetary capital, the capital in the form of money.

**Financial crisis** – a deep frustration of the state financial, monetary system which is showing in sharp discrepancy of the income of the budget to their



expenses, instability and falling of an exchange rate of national monetary unit, mutual non-payments of economic subjects, discrepancy of monetary weight in the address to requirements of the law of monetary circulation, inflation.

**Fiscal policy** – government policy in the field of the taxation, the public expenditures, state budget, directed to employment of the population and prevention, suppression of inflationary processes. It is a rod part of financial policy and a component of economic policy of the state.

**Frictional unemployment** – the temporary unemployment caused by *voluntary transition of the worker from one work to another, that the layoff period* is caused.

**Functional distribution of income** – a way of distribution of the national income of the country between consumers depending on performance of functions by them in economy. In this case the national income shares on a salary which hired workers receive for the work (for the made goods), income of independently busy (doctors, lawyers), profit of corporations, interest and rent.

**Purpose of Development of the Millennium (PDM)** — it is eight international purposes and 21 tasks of development which 193 member states of the UN and, at least, 23 international organizations agreed to reach by 2015. These purposes are based on earlier problems of the international development, and officially established at the Millennium Summit in 2000 where all being present world leaders adopted the Millennium Declaration of the UN in which the eight purposes were presented. The purposes include reduction of scales of extreme poverty, decrease in child mortality, fight against epidemic diseases, such, as AIDS, and also expansion of the world cooperation with the development purpose.

**Target program** – set of interconnected by terms, performers, resources of activities (actions) of the production and technological, scientific and technical, social, organizational character directed on achievement of the uniform purpose, *the solution of a common problem*. Divided by levels into the state, regional, municipal programs, by types — into scientific and technical, social and economic,

foreign economic, production and technological, ecological target, comprehensive programs.

**Values** – are what satisfies needs of people. They are as needs, material, spiritual and social.

**Cyclic unemployment** — the unemployment caused by cyclic declines in production.

**Private property** — one of the main forms of ownership on the earth, real estate, means of production, money and securities, labor, various goods, the intellectual product, being that these objects of property belong to private persons, individuals, families, groups of persons. It is accepted to refer to a private property both individual, and corporate, joint-stock, non-state property.

**Private sector** — the part of economy connected with activity and transactions of individuals (individual sector), the enterprises, the companies (corporate sector), financial institutions (financial sector). The private sector together with public sector forms internal national economy.

**Human capital** – is a set of stocks of abilities available for the person and the qualities applied in the course of production of the benefits and services.

**Human development** – is a process of providing people with wider choice. The main aspects of human development are opportunity to live long and healthy life, to acquire knowledge and to have access to the resources necessary for a worthy standard of living.

**Human factor** is the functioning labor considered in total of its qualitative characteristics.

**Chicago school** — the group of world renowned economists working at the Chicago University of the USA, defending generally liberal and monetaristic market concepts.

**Exogenous (external) factors** – conditions, reasons not depending on the economic, managing subject which it can't affect, making considerable impact on activity of the subject and its results.

**Shock therapy** — a complex of the radical measures directed to improvement of economy, breaking a habitual current of the economic relations, phenomena and being accompanied by a number of negative consequences: rise in prices, inflation, employment falling, etc.

**Ecology** (from Greek "éikos" — "house", "dwelling", "residence") – the science studying relationship of the person with environment surrounding him, including economic use of natural resources, their protection and restoration. Ecology is also called state of environment, the nature.

**Economy** (from Greek "éikos" — "house", "economy" and "nomos" — "rule", "law"; in total — "rules of housekeeping") — 1) economy, set of means, objects, processes used by people for providing life, satisfaction of needs by creation of benefits necessary for the person, conditions and a subsistence with work application; 2) science about economy, ways of its maintaining by people, human relations in the course of production and an exchange of goods, regularities of course of economic processes.

**Welfare economy** — the branch of the economic theory studying methods of the organization of economic activity, providing maximizing of welfare.

**Economics** — the economic theory, the part of economic science studying theoretical bases of economic processes. The term "economics" was introduced into wide circulation by the British scientist-economist A. Marshall and in a sense replaced earlier used concept "political economy", having given it a big practical orientation. The supply and demand theory, establishment of market balance, the market competition, behavior of producers and consumers in the market forms a basis of the subject "economics". In Russian it is more correct to use the Russian words "economy", "economic theory" adequate to it instead of the English word "economics".

**Economic science** — science about economy, management of economy, human relations, and also people and the environment, arising in the course of production, distribution, exchange, consumption of a product, benefits, services. The economic science belongs to the class of public sciences, combines signs of

exact and descriptive sciences, in many respects is the empirical science based on experience, is among the humanities.

**Economic policy** — the general line of actions, system of measures pursued by the state, the government in the field of management of economy, giving of a certain orientation to economic processes according to the purposes, tasks, interests of the country. Includes institutional, structural, investment, financial and credit, social, external economic, scientific and technical, tax, budgetary policy.

**Economic system** — historically arisen or established set of the principles operating in the country, the rules, legislatively consolidated norms defining form and content of the main economic relations, arising in the course of production, distribution, exchange and consumption of an economic product.

**Economic theory** — theoretical ideas of economic processes and phenomena, of functioning of the economy, of the economic relations, based, on the one hand, on logic, on historical experience and, on the other hand, on theoretical concepts, views of scientists-economists.

**Economically active population** — the part of the population occupied with socially useful activity, bringing in income.

**Economically inactive population** — the persons who aren't busy and jobless, including: pupils and the students who are training with a separation from production and not having earnings or labor income; unemployed disabled people of the third group; housewives and the unemployed women who are carrying out care of children; the unemployed persons gaining income from personal and real estate; voluntarily unoccupied persons.

**Economic laws** — stable, essential relations, interrelations between economic events, processes, the relations characterizing them by sizes and indicators, established on the basis of experience, practical activities, revealed by scientific researches.

**Economic methods of management** — methods of control over economic and social processes, people, leaning on excitement of a material interest, monetary

incentives. These are methods of economic incentives by means of a salary, bonus payments, establishment of privileges, preferences.

**Economic reforms** – large transformations, changes in system of housekeeping, management of economy, ways and methods of implementation of economic policy. Economic reforms are carried out in conditions when low efficiency of economic system comes to light, there are economic crises, the economy badly, insufficiently satisfies needs of people, the country lags behind in the development from other countries. In the Republic of Uzbekistan carrying out economic reforms in the 1990th years is connected with transition to market economy.

**Economic growth** – increase in scales of cumulative production and consumption in the country, characterized, first of all, by such macroeconomic indicators, as a gross national product, a gross domestic product, the national income. Economic growth is measured by growth rates or a gain of these indicators for a certain period of time (the relation of indicators in the end and at the beginning of the period or the relation of a gain of an indicator to its initial value).

**Extensive way of development** — a way of increase in outputs at the expense of quantitative factors of economic growth: additional attraction of labor, expansion of cultivated areas, increases in production of raw materials, building of new objects. Possibilities of an extensive way of development are always limited to existence natural resources and manpower.

**Empirical data** – the data received on the basis of experience, practice.

**Endogenous (internal) factors** – the factors having impact on economic objects, processes, relation from within; governing bodies of object are capable to make regular influence on such factors.

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