

CHALLENGES OF ESTABLISHING SUSTAINABLE GROWTH IN UZBEKISTAN: MARKET AND GOVERNMENT FAILURES

Toremuratova Naubakhar

<https://doi.org/10.5281/zenodo.20799040>

Abstract: In economics, market failure is a condition in which products and services are distributed inefficiently in a free market. Individual incentives for rational behavior do not lead to rational group outcomes in the event of market failure. To put it another way, each person makes the best option for herself, while the group makes the worst decision. This is sometimes referred to as a steady-state disequilibrium in classical microeconomics, in which the quantity supplied does not equal the quantity required. In the context of public economics, government failure is defined as an economic inefficiency produced by government intervention that would not exist in a truly free market. In this paper, we will discuss about the reasons which causes Market and Government failures in Uzbekistan and the way that government should do to fix these problems.

Key words: Market failure, State intervention, Sustainable growth, Social cohesion, Neoclassical economics, Government failure

Introduction

After seceding from the old Soviet Union, of which it had been a part since 1924, Uzbekistan attained independence in 1991 and began its transition to a market economy. Uzbekistan is a presidential republic in which presidential and parliamentary elections are conducted often. Uzbekistan, a landlocked country rich in natural resources, lacks access to the sea but is strategically placed in Central Asia. The country's population is estimated to be around 30 million people (as of January 2013), with half of them living in metropolitan regions. Uzbekistan's population accounts for roughly 40% of Central Asia's overall population. Uzbekistan has been following a policy of well-balanced, incremental economic reforms since the early 1990s. The state trade policy is highly stringent, with a slew of tariffs and non-tariff barriers in place. Economic policy is primarily defined by aggressive government involvement aimed at achieving food and energy self-sufficiency, as well as import substitution and the accumulation of foreign exchange reserves. Uzbekistan has made great progress in decreasing poverty and combating malnutrition during the last decade. Milk security in the country fell from 28 percent in 2001 to 16 percent in 2011, according to official statistics. More equal income distribution, employment development with a special focus on rural areas, and a more attentive attitude toward socially vulnerable sectors of the population are all ways to ensure social cohesiveness.

Gender equality is still present in basic and secondary school, and the percentage of female university students has climbed from 25% in 1998 to 36.1 percent in 2011. Women's representation in Uzbekistan's parliament has increased from 6% in 1994 to 19% in 2011. In Uzbekistan, maternal mortality fell from 33.1 per 100,000 live births in 2000 to 23.1 in 2011. This feat was made possible by lower birth rates, fewer undesired pregnancies and abortions, and longer intervals between pregnancies. The government has recognized and resolved the population's iron, folic acid, iodine, and vitamin A shortages, and combined work with foreign partners is underway to build successful health initiatives. Uzbekistan makes serious steps to combat the spread of HIV/AIDS, TB, and malaria, with the goal of eradicating all three diseases by 2015. In Uzbekistan, the HIV epidemic is not as widespread as it is in other countries. Uzbekistan has made tremendous success in combating tuberculosis and controlling its spread. In 2011, the incidence of tuberculosis in Uzbekistan was 53.1 persons per 100,000 people, which is 30% lower than the same statistic from 2005. The government

also recognizes the need to improve environmental protection and rational use policies, as well as the need to develop and implement a number of strategies in the areas of environmental protection, natural resource management, biodiversity conservation, agricultural rationalization, renewable energy deployment, and desertification mitigation.

Despite these accomplishments, there remain a number of problems that need to be addressed. We shall concentrate on market and government failures in Uzbekistan in this study. There are a variety of reasons for government failure. For example, the government may be pressured by certain groups in society to act in their interests rather than those of society as a whole; there may be a lack of information resulting in the best policy decisions not being made; and politicians and bureaucrats may not have the goal of maximising society's welfare. The European Union's Common Agricultural Policy (CAP) is a typical example of government ineptitude that has resulted in environmental disaster. Farmers' incomes have historically been supported by the CAP through the use of high product prices. Overproduction and intensive farming have resulted as a result of this. Overgrazing, pollution from ammonia emissions from livestock farming, and a reduction in hedgerows, all of which have resulted in habitat loss; surface and ground water pollution; overgrazing; and pollution from ammonia emissions from livestock farming. In an effort to address these government shortcomings, a program has recently been implemented that provides farmers with financial incentives to deliver the level of environmental quality that society desires. There are numerous such examples of government policy that has harmed the environment. Energy policies in underdeveloped countries, for example, have exacerbated environmental issues. This is due to the fact that energy use in underdeveloped countries is typically subsidized, resulting in energy waste. This has resulted in increased air pollution and garbage disposal issues. (<https://www.soas.ac.uk> **Literature review**)

Government Failure

With the emergence of intellectual and political criticism of government restrictions in the early 1960s, the phrase "government failure" became a term of art. Economists established new ideas suggesting that government interventions in markets are costly and frequently fail, based on the notion that the only justifiable basis for government regulation is market failure. (Charles J. Wolf, 1979). When the government intervenes in the economy to solve a problem, it just creates more issues. That is, it has a negative impact on social welfare and/or reduces market efficiency. There must first be a market failure for government failure to occur. That is to say, the market is failing to deliver positive social outcomes. The government will then determine whether or not to act, as well as how to do so. If the government intervenes merely to exacerbate the problems, it has failed. (<https://study.com>) Economists nowadays often see the market as the default option for social order, with government playing a role only when markets fail. Markets are seen to fail in situations when there are (extreme) positive or negative externalities, when public commodities are traded, when increasing returns or a natural monopoly create market defects, or possibly, according to some, to redress unequal wealth or income distribution. Some economists, such as social and institutional economists, are more receptive to the government's involvement in the economy. When its role is examined in detail, it is sometimes considered as beneficent in concept. (Wilfred Dolfsma, 2011). Government intervention to correct market failures and regulate the macroeconomy may not result in a socially effective resource allocation. Government failure is typically characterized as an instance in which government interference in the economy results in inefficiency and misallocation of limited resources.

Market Failure

The inefficient distribution of goods and services in a free market is referred to as "market failure." The forces of supply and demand determine the pricing of products and services in a normal free market, and every change in one force causes a price change and a proportional change in the other. Price equilibrium is the result of the changes. Due to market distortion, market failure occurs when the market is in a state of disequilibrium. It occurs when the quantity of products or services offered is insufficient to meet the demand. (<https://corporatefinanceinstitute.com>). Monopoly power, pricing controls, minimum wage requirements, and government regulations are all examples of distortions that may undermine the free market. Market failure is defined as a circumstance in which a free market's allocation of commodities and services is not Pareto optimal, resulting in a net loss of economic value in neoclassical economics. (NSW Government, 2017). Market failures can be defined as situations in which individuals' pursuit of pure self-interest leads to inefficient outcomes that can be improved from a societal standpoint. (John O. Ledyard, 2008). A popular reason for new government policies is "market failure." Interventionists love to point to examples of ostensibly flawed markets and believe that government taxation, subsidies, and regulation can smoothly improve them, maximizing societal welfare. (Ryan Bourne, 2019)

Problems of establishing sustainable growth in Uzbekistan: Economic, Market and Government failures

Uzbekistan's economy remains stagnant, unemployment is rising, and living standards are deteriorating. While central Tashkent appears to be prosperous, many people in the city, and even more so in the regions, are living in poverty. According to the IMF, the economy increased by only 0.3 percent in 2003, and GDP per capita has dropped every year since 1998, reaching only US\$350 per capita in 2003. With little foreign investment, the dictatorship is able to exist by selling basic goods such as gold and cotton. The only way to address the economic crisis is to implement far-reaching structural reforms, but the political class is wary of measures that might jeopardize its own privileged position. In October 2003, the long-awaited announcement of currency convertibility was made, but the actuality has been dismal. Although the currency is now convertible in theory, access to foreign exchange remains restricted in practice due to covert and unofficial controls. Foreign trade prohibitions continue in place, resulting in a significant increase in contraband and border corruption, as well as a significant stifling of small business development. The business climate remains unfriendly, and government agencies continue to stifle small and medium-sized businesses. The EBRD's other major concerns have not been addressed. State-owned firm privatization has slowed, and banking reforms have delayed, guaranteeing that informal financial transactions continue to dominate the economy. As Uzbek businesspeople increasingly choose to invest overseas, capital flight has surged. Social unrest has resulted from economic failure. Despite official repression, factory employees conducted rare strikes over unpaid salaries in 2003, and pensioners took to the streets to demand their payments. Unemployed young people are increasingly looking to exit the nation. The most active and educated citizens are migrating to Russia or the United States. This deteriorating socioeconomic situation is causing a rising tide of public dissatisfaction, which in some areas is fueling support for extremist Islamist groups. Increased Western participation after September 11th, 2001, was expected to lead to government liberalization, but expectations were disappointed. Instead, dissatisfaction with the US military presence is growing, as is the connection of Western institutions and governments with the authoritarian regime. In Uzbekistan, there are several factors that contribute to market failure. They are:

- Positive and negative externalities: An externality is a consequence of the use or production of a good or service that has a negative impact on a third party. A positive externality is a good or service that has a positive spillover effect as a result of its use or production. Although public education may only have a direct impact on students and schools, an educated populace can benefit society as a whole. A negative externality is when something has a negative impact on others. People's health may be harmed by secondhand smoke even if they do not smoke directly.
- A scarcity of public goods: public goods are those whose total cost of production remains constant regardless of the number of customers. A lighthouse, for example, has a set cost of manufacturing regardless of whether one ship or a hundred ships use its light. There is minimal incentive to build a lighthouse from a private position because one can wait for someone else to build it and then use its light without paying for it. The free rider problem is defined as someone who takes use of resources, goods, or services without paying for them.
- Merit goods underproduction: a merit good is a private good that society perceives is underutilized, with often favorable externalities. Merit goods include things like education, healthcare, and sports facilities.
- Overprovision of demerit goods: a demerit good is a private good that society perceives has been overconsumed, frequently with negative externalities. Cigarettes, alcohol, and prostitution, for example, are considered deplorable products.
- Monopoly power abuse: in order to maximize profit, imperfect markets limit output. (<https://courses.lumenlearning.com>)

When a market fails, the government usually steps in to help, depending on the cause. When markets fail, the government usually reacts in a variety of ways. The following are examples of possible government responses:

- adopting particular laws (legislation). For example, making high school attendance mandatory or prohibiting smoking in eateries.
- direct provision of public goods and merit — governments manage the supply of goods with positive externalities. For example, by providing ample educational opportunities, parks, and libraries.
- Depending on the source of a market failure, the government usually steps in to assist. When markets fail, the government typically responds in a number of ways. Here are some examples of potential government responses:
 - passing specific legislation (legislation). For instance, requiring high school attendance or restricting smoking in restaurants.
 - merit and direct provision of public goods — governments manage the supply of products with positive externalities. By providing sufficient educational opportunities, parks, and libraries, for example.
 - extension of property rights – creates privatization for certain non-private goods like lakes, rivers, and beaches to create a market for pollution. Then, individuals get fined for polluting certain areas.
 - advertisement – promotes or discourages consuming.
 - International cooperation amongst governments — countries collaborate on issues affecting the environment's future. (John O. Ledyard, 2008).

Conclusion

Markets are not without flaws. In the face of obvious difficulties, government measures such as taxes, subsidies, and regulations can be utilized to increase social welfare. However, as this

research has demonstrated, poor reasoning by interventionists frequently result in inefficient policies. Policy advocates sometimes push for government provision of certain goods even when there is no economic rationale or ignore evidence that markets can deliver public goods on their own, armed with a rudimentary understanding of market failure and the belief that government is well placed to correct markets. They frequently argue for considerably higher tax rates than are required to account for true external costs, or they fail to apply the logic of dealing with externalities consistently. They sometimes overlook the impact of taxes on replacement products marketplaces or incorrectly utilize externalities to justify outright prohibitions. All these mistakes can lower social welfare. The best academic economic analysis these days considers the effects of intervention on outcomes against real-world alternatives, including nonintervention and other policies, not against the outcomes of some theoretical perfectly competitive market. But, too often in public debate, advocates for intervention deem it sufficient to point out some market imperfection in order to justify government subsidies, taxes, or regulation. This simplistic approach—predicated on the idea that government can perfect markets—leads to more intervention or higher taxes than what is optimal and has significant unintended consequences.

Adabiyotlar, References, Литературы:

1. Charles J. Wolf, (1979). "A Theory of Non-Market Failure"
2. John O. Ledyard (2008). "market failure," [The New Palgrave Dictionary of Economics](#)
3. NSW Government (2017). "[A guide to categorising market failures for government policy development and evaluation](#)"
4. [Ryan Bourne](#), (2019) "How 'Market Failure' Arguments Lead to Misguided Policy"
5. Wilfred Dolfsma 2011, "Government Failure — Four Types".
6. Online sources
7. <https://courses.lumenlearning.com>
8. <https://corporatefinanceinstitute.com>
9. <https://study.com>
10. <https://www.soas.ac.uk>