

**INSTITUTIONAL AND ORGANIZATIONAL-ECONOMIC FACTORS OF
EFFECTIVE ECONOMIC GROWTH***T.T. Jo'raev**DSc in Economics, Professor,**Tashkent State University of Economics*

Annotation: This study examines the crucial role of institutional and organizational-economic factors in ensuring sustainable and effective economic growth. It explores how well-functioning institutions, good governance, regulatory quality, and efficient organizational structures contribute to economic performance. Special attention is given to the impact of institutional reforms, public sector efficiency, and private sector development on long-term growth. The paper also analyzes international experiences and provides policy recommendations for strengthening institutional frameworks to support inclusive and green economic development, with particular relevance to developing and transition economies.

Key words: Economic growth, institutional factors, organizational-economic mechanisms, governance, regulatory quality, institutional reforms, public sector efficiency, private sector development, inclusive growth, green economy, sustainable development.

Аннотация: В этом исследовании рассматривается решающая роль институциональных и организационно-экономических факторов в обеспечении устойчивого и эффективного экономического роста. В нем изучается, как хорошо функционирующие институты, хорошее управление, качество регулирования и эффективные организационные структуры способствуют экономическим показателям. Особое внимание уделяется влиянию институциональных реформ, эффективности государственного сектора и развитию частного сектора на долгосрочный рост. В статье также анализируется международный опыт и даются рекомендации по политике для укрепления институциональных рамок для поддержки инклюзивного и зеленого экономического развития, что особенно актуально для развивающихся и переходных экономик.

Ключевые слова: экономический рост, институциональные факторы, организационно-экономические механизмы, управление, качество регулирования, институциональные реформы, эффективность государственного сектора, развитие частного сектора, инклюзивный рост, зеленая экономика, устойчивое развитие.

Economic growth is considered one of the most important outcome-based macroeconomic indicators. It is analyzed and assessed at various levels: the global economy, the national economy, its sectors, industries, and regions. Regardless of the level, economic growth implies an increase in the absolute volume of production, per capita output, and the relative share of expenditures (resources), as well as qualitative improvement in the composition (material and product structure) of production.

Thus, economic growth is measured through both absolute and relative indicators. The absolute indicators, regardless of the level of determination, reflect the growth (or decline) rates of production volume. This indicator is used to assess economic (and military) potential. Relative indicators of economic growth help draw general conclusions about the population's living standards and production efficiency. Changes in the qualitative composition of Gross Domestic Product (GDP) allow evaluating the modernity of production and identifying the renewal period of GDP.

Effective economic growth is also assessed through absolute and relative indicators. The absolute indicator is expressed in the growth rates of Net Domestic Product (NDP), National Income (NI), and profit volume. Relative indicators are reflected in the growth (or decline) rates of NDP, NI, or profits per unit of production cost (GDP cost) or per unit of resource. An increase in the rate of GDP renewal and a shortening of the renewal period are also considered criteria for evaluating effective economic growth.

Since the current system of national accounts in Uzbekistan does not yet determine the NDP and NI indicators, it is appropriate to use the total amount (mass) of profits generated in the national economy as the main absolute indicator of effective economic growth, and the rate of profit as the relative indicator.

For Uzbekistan, since 2001, the stability of economic growth rates (increase in absolute GDP) has been characteristic. Despite the global financial and economic crisis, such growth was on average 8.5–9.0% until 2010, 7.0–7.5% until 2010, 4.6% in 2020, 4.5% in 2021, 5.9% in 2022, and 6.6% in 2023. However, the increase in the absolute size of GDP does not necessarily reflect effective economic growth for two reasons.

First, this growth does not indicate the costs incurred to achieve it, i.e., it does not reflect the changes (increase or decrease) in the cost price of GDP. In our country, the resource intensity of production remains high. In other words, the rate of increase in nominal GDP is significantly outpaced by the growth of production costs. This is explained by the low productivity of resources, especially labor.

Second, the GDP growth rate does not account for changes (increases) in price dynamics over the year. Since both of these factors are of a negative nature, the dynamics of the total volume and rate (norm) of profit in the economy—which are key indicators of effective economic growth—are significantly lower than those of GDP and show a tendency to decline further.

In addition to these two negative trends in the indicators of effective economic growth, it is also evident that the share of innovative and renewed products in the country's GDP is low. In 2023, the share of innovative products (services) in Uzbekistan's GDP was only 1.7%. This implies that the renewal of GDP in the country would take more than 20 years. This situation not only reduces the competitiveness of national producers but also sharply increases dependence on imported goods (services). In this context, Nobel laureate Douglass North justifiably asked: "Why don't poor countries simply try and implement the proven measures that ensure economic prosperity?"—a question that remains highly relevant for us.

Let us now consider some institutional, organizational, and organizational-economic factors that many economists believe define the welfare or poverty of a population. These primarily include the formation of effective state institutions, social protection mechanisms, and public organizations, as well as increasing the efficiency of their functioning. Although the number of ministries and committees in the Republic has significantly decreased in recent years, they still form a large bureaucratic layer (about 30). A significant amount of state budget funds is spent on ensuring the activities of these institutions, often inefficiently. Moreover, this may lead to increased corruption, as the functional responsibilities of these institutions continue to allow for potential corrupt practices.

Corruption is the "cancer" of the economy: it reallocates national resources for personal gain, inhibits innovation, and misdirects or misuses foreign investment. Numerous social protection and public organizations, as well as various associations and foundations established for a wide range of purposes, often fail to operate effectively in accordance with their stated goals. Instead, they frequently prioritize "money laundering"—that is, the embezzlement or misappropriation of budgetary or other financial resources under their control.

Successful and effective economic growth and public welfare also depend, in addition to the aforementioned factors, on the fair and efficient functioning of the legal system, law enforcement agencies, courts, infrastructure institutions, tax authorities, and the government as a whole.

Without denying the negative legacies of colonialism, it must be acknowledged that in many colonized countries, systems of state institutions were systematically established over decades, which had a long-term positive impact on economic development. However, in Uzbekistan, since independence, the institutional structure has been chronically and extensively expanded "both in height and width," leading to inefficient expenditures and ultimately having a negative impact on effective economic growth.

During the colonial period, European powers established governance institutions in the territories they controlled that had a long-term positive influence on economic growth. Examples include the United States and countries in Southeast Asia, which achieved significant economic development and prosperity due to their effective governance systems.

Studies conducted across 64 formerly colonized countries reveal that at least three-quarters of the differences in their current levels of prosperity can be explained by disparities in the effectiveness of governance institutions.

The World Bank, in its assessment of governance quality in 150 countries, constructed a rating based on six key indicators: accountability, government effectiveness, rule of law, regulatory quality, control of corruption, and political stability. Based on these indicators, a direct causal relationship has been established between effective governance and positive economic development outcomes (p. 440).

Property rights: There are sharp differences between developed and developing countries regarding property rights. In developing countries, ownership of wealth and

property—regardless of form—tends to be more informal. People often lack the legal authority to sell, lease, divide, transfer to family members, or use their assets as collateral. Such properties are typically referred to as "dead capital" because they cannot be efficiently mobilized in the formal economy. In Uzbekistan, agricultural land can be considered an example of such "dead capital." Following independence, agricultural land began to be leased on a long-term basis—often for up to 49 years—with the condition that it could be passed on to the next generation. However, during this period, various forms of farm management were experimented with in the agricultural sector. This process still continues today. These forms include family contracting, agricultural cooperatives, peasant farms, private farms (farmers), and agricultural clusters—all operating within the same framework of land ownership but through differing management models. These arrangements have not fostered a genuine sense of ownership in the agricultural sector. On the contrary, they have alienated the "owners" from their land. As a result, agriculture in Uzbekistan has turned into a sector that negatively affects overall economic growth. The phenomenon of informal property rights is also prevalent in other sectors of the national economy. Such informality inevitably reduces economic activity and, in turn, dampens the incentives for efficient economic growth. Excessive regulation further exacerbates the situation by strengthening bureaucracy and fostering corruption. In recent history, the development of private enterprise in Uzbekistan has often faced numerous bureaucratic obstacles. Although the creation of "People's Reception Offices" (Xalq qabulxonalari) has somewhat eased these burdens, the negative influence of the "human factor"—that is, individual discretion and abuse of power—has not been completely eliminated.

Tax burden also has a significant impact on economic activity and efficient growth. When tax rates are low, simple, and easy to collect, tax revenues increase. In contrast, high tax rates can paralyze the economy, promote extortion, and open the door to corruption.

Empirical research and the experience of highly developed nations suggest a direct correlation between government spending and efficient economic growth. For example, Harvard economist Robert Barro's 30-year study of nearly 100 countries found that lower government spending (excluding education and defense) is associated with higher per capita GDP growth. In the "Asian Tigers," for instance, government spending equaled only about 20% of GDP, which coincided with rapid economic development. Investment in human capital boosts the productivity of economic activities, and productivity, in turn, determines the standard of living. In all economically successful countries, effective growth has primarily relied on a highly skilled labor force.

Developing countries face a high risk of falling into a "human capital trap": when skilled labor is lacking, there is less incentive to invest in and promote human capital development. This leads to increased emigration of unskilled workers and, domestically, intensifies the migration of low-skilled individuals from rural to urban areas in search of income opportunities.

Countries with large budget deficits are often forced to borrow heavily. In Uzbekistan, the budget deficit has increased in recent years, reaching 5% of GDP in 2023, while the public debt amounted to \$43 billion. Spending that drives such deficits can ultimately have negative consequences for the entire society. These include: raising tax rates or broadening the tax base

to reduce debt, increasing prices and tariffs (leading to inflation), or even entering sovereign default.

As a result, the principle of "equal capital — equal return" is violated. Although banks are expected to serve the real sector, they instead increase their capitalization through high interest rate margins. Expensive credit leads to higher production costs for producers, which in turn reduces their profitability. When banks pursue "cheap" monetary policies to protect their own interests, excessive money issuance (emission) occurs, leading to soaring inflation. Moreover, banks lose their ability to effectively control monetary circulation. A breakdown in monetary control can lead to dangerous socio-economic consequences.

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