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THE IMPACT OF IMPROVING THE INSTITUTIONAL AND ECONOMIC MECHANISM OF EMPLOYMENT PROVISION ON ECONOMIC GROWTH

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ABSTRACT

This paper examines the theoretical and practical aspects of improving the institutional and economic mechanism for ensuring population employment and evaluates its impact on economic growth. Particular attention is paid to labor market institutions, public employment policy, private-sector participation, entrepreneurship development, vocational training, digital employment services, labor market information infrastructure, and the formalization of employment relations.

The study argues that an increase in employment generates a multiplier effect on economic growth through more efficient utilization of labor resources, growth of household income, expansion of aggregate demand, increase in production volumes, broadening of the tax base, and development of human capital.

The dynamics of employment, unemployment, labor resources, the number of employed persons, and real GDP growth in Uzbekistan during 2020–2025 are analyzed. The results indicate that improving the institutional and economic mechanism of employment requires the establishment of an integrated system combining public employment institutions, private recruitment agencies, educational institutions, entrepreneurship support mechanisms, and digital labor market platforms.



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The paper concludes that employment policy should focus not only on increasing the quantitative number of jobs but also on creating productive, formal, sustainable, and high-quality employment capable of increasing labor productivity and supporting long-term economic growth.

Keywords: Employment, labor market, institutional and economic mechanism, economic growth, unemployment, labor resources, human capital, labor productivity, entrepreneurship, digital employment, institutional development, public employment policy.

INTRODUCTION

Under the conditions of modern economic development, ensuring population employment is no longer merely a separate component of social policy. It has become one of the most important macroeconomic factors contributing to sustainable economic growth.

A high level of employment contributes to the efficient use of labor resources, an increase in household income, expansion of domestic demand, reduction of poverty, and growth of public budget revenues.

Traditional theories of economic growth identify capital, labor, and technology as the main factors of production. However, modern institutional economics demonstrates that the efficiency with which these factors are used largely depends on the quality of institutions operating in the economy.

According to D. North's institutional theory, institutions represent the “rules of the game” that regulate economic interactions and influence transaction costs, incentives, and the efficiency of economic decisions.

From this perspective, the mere existence of labor supply and labor demand is insufficient for the effective functioning of the labor market. Information



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asymmetry between employers and job seekers, skills mismatch, high job-search costs, regional disparities, informal employment, and insufficient adaptation of professional skills to market demand may significantly reduce the efficiency of labor resource utilization.

Therefore, addressing these problems requires the formation and continuous improvement of an effective **institutional and economic mechanism of employment provision**.

The institutional and economic mechanism of employment can be defined as a system consisting of public and private institutions, legal norms, economic incentives, financial instruments, labor market infrastructure, and economic relations aimed at ensuring productive employment.

Improving this mechanism is of particular importance for Uzbekistan, where demographic growth, changes in the structure of the economy, digital transformation, entrepreneurship development, and increasing demand for skilled labor continuously create new challenges for the labor market.

MAIN PART

The relationship between employment and economic growth is characterized by a two-way economic interaction.

On the one hand, economic growth increases production volumes and creates new jobs. As demand for goods and services expands, enterprises increase their production capacity and require additional labor resources.

On the other hand, growth in employment itself contributes to economic development. An increase in the number of employed people expands the labor



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resources involved in production, increases household income, and stimulates consumer demand.

According to Keynesian economic theory, employment is directly related to effective aggregate demand. An increase in aggregate demand encourages enterprises to expand production and hire more workers.

However, in modern economies, not only the **quantity of employment** but also its **quality** matters.

An increase in low-productivity employment may have a limited effect on overall economic development. By contrast, highly productive and skilled employment generates higher value added, improves competitiveness, and contributes more significantly to GDP growth.

Therefore, contemporary employment policy should simultaneously address three major objectives:

Increasing employment → Improving employment quality → Increasing labor productivity

The ultimate result of this process is sustainable economic growth.



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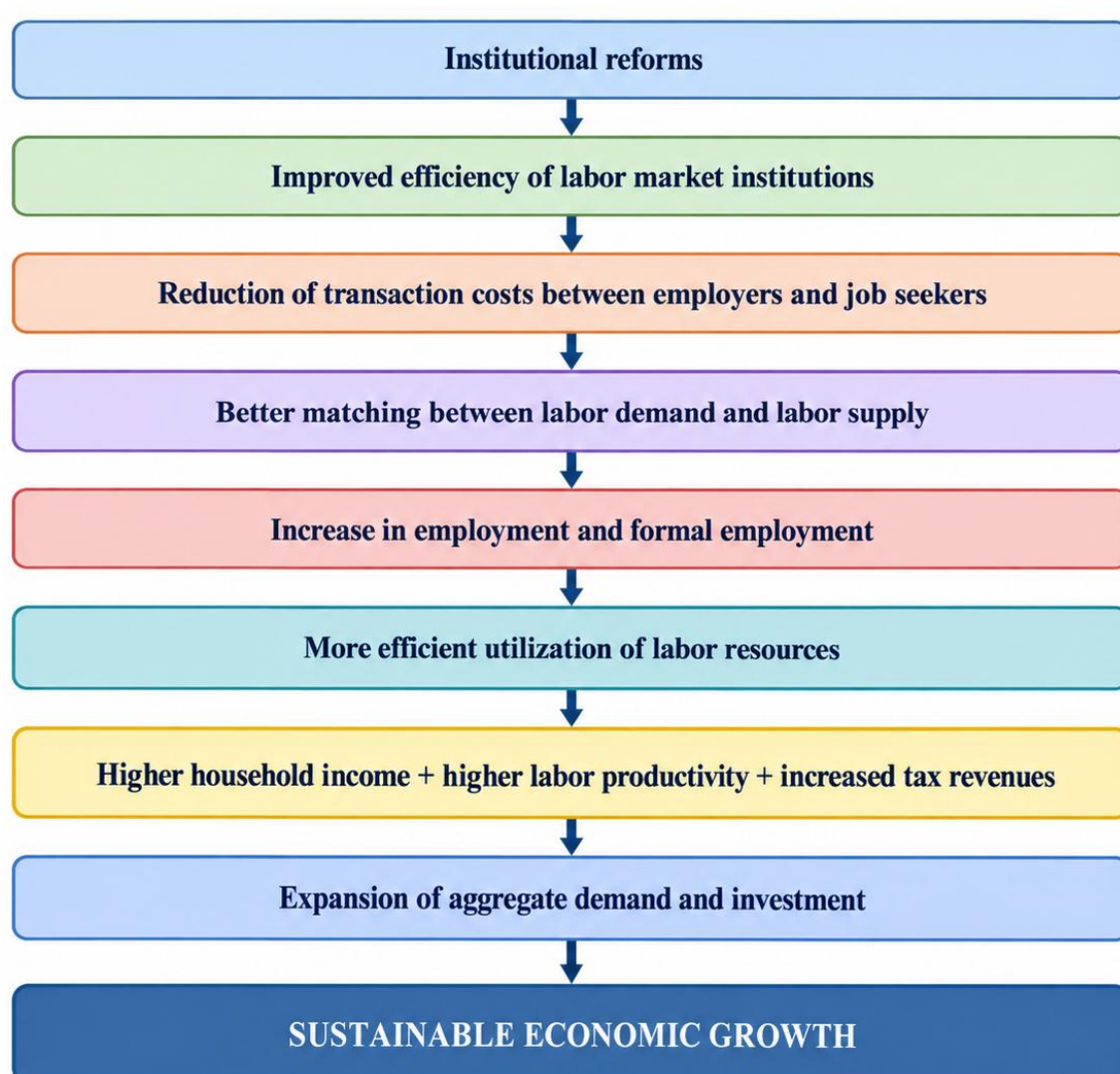


Figure 1. Transmission mechanism from institutional employment development to economic growth



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The primary role of institutions within this mechanism is to reduce imbalances between labor demand and labor supply.

The more transparent and accessible labor market information becomes, the shorter the duration of job search, the faster vacancies are filled, and the lower the recruitment costs for employers.

Recent trends in the labor market of Uzbekistan demonstrate simultaneous improvements in employment indicators and overall economic activity.

Table 1 Main Employment and Economic Growth Indicators of Uzbekistan, 2020–2025

Indicator	2020	2021	2022	2023	2024	2025
Labor resources, million persons	19.158	19.335	19.518	19.740	20.085	20.603
Employed population, million persons	13.236	13.539	13.706	14.014	14.262	14.934
Employment rate, %	66.0	67.0	67.2	67.9	68.3	70.5
Unemployment rate, %	10.5	9.6	8.9	6.8	5.5	4.8
Real GDP growth, %	1.6	8.2	6.1	6.3	6.7	7.7

Source: Compiled by the author based on data from the National Statistics Committee of the Republic of Uzbekistan.

The data indicate substantial improvements in Uzbekistan's labor market during 2020–2025.

The number of employed people increased from approximately **13.236 million in 2020 to 14.934 million in 2025**. Thus, the total increase in employment amounted to approximately **1.7 million people**, or nearly **12.8 percent**.

During the same period, the number of labor resources increased from 19.158 million to 20.603 million people. This trend highlights the growing need to create new productive and sustainable jobs every year.

The employment rate rose from 66.0 percent in 2020 to 70.5 percent in 2025, representing an increase of **4.5 percentage points**.



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At the same time, the unemployment rate declined from 10.5 percent to 4.8 percent, corresponding to a reduction of **5.7 percentage points**.

Economic growth also accelerated during this period. Real GDP growth amounted to 1.6 percent in 2020, increased significantly to 8.2 percent in 2021, and remained above 6 percent in subsequent years, reaching approximately 7.7 percent in 2025.

These trends demonstrate that improvements in labor market indicators have occurred simultaneously with stronger economic activity.

However, it should be emphasized that the relationship between employment and economic growth should not be interpreted as a simple direct causal relationship because GDP growth is also influenced by investment, technological progress, exports, government expenditure, capital accumulation, productivity, and other macroeconomic factors.

Figure 2. Employment and Unemployment Rates in Uzbekistan, 2020–2025

Year	Employment rate, %	Unemployment rate, %
2020	66.0	10.5
2021	67.0	9.6
2022	67.2	8.9
2023	67.9	6.8
2024	68.3	5.5
2025	70.5	4.8

Source: Compiled by the author based on official statistical data.

The observed dynamics show that the opportunities for involving labor resources in economic activities have expanded substantially.

This process can be further strengthened through entrepreneurship development, support for self-employment, vocational training, job matching, private recruitment services, and digitalization of the labor market.



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Small business also plays a significant role in creating employment. In 2025, more than 11 million people were employed in small entrepreneurship entities in Uzbekistan.

Therefore, the institutional mechanism of employment should support not only large enterprises but also small businesses, family businesses, start-ups, self-employed individuals, and private recruitment organizations.

The employment mechanism should not be interpreted as a system consisting only of public employment agencies.

Instead, it should function as a multidimensional institutional system involving public authorities, private intermediaries, educational institutions, employers, entrepreneurs, digital platforms, and labor market participants.

Table 2 Main Elements of the Institutional and Economic Mechanism of Employment

Institutional area	Main instruments	Impact on employment	Impact on economic growth
Public employment institutions	Vacancies, employment programs, subsidies and employment services	Increase in job placement	More efficient use of labor resources
Private recruitment institutions	Search, selection and matching of employees	Better employer–employee matching	Reduction of transaction costs
Education and vocational training	Vocational education, retraining and reskilling	Reduction of skills mismatch	Higher labor productivity
Entrepreneurship institutions	Loans, subsidies and business support	Creation of new jobs	Increase in production and value added
Digital labor market	Electronic databases and employment platforms	Shorter job-search duration	More efficient resource allocation
Formalization mechanisms	Electronic contracts and tax incentives	Reduction of informal employment	Expansion of the tax base
Regional employment policy	Local programs and labor balance systems	Reduction of regional disparities	Increase in regional economic activity
Social partnership	Government–business–education cooperation	Better alignment of skills with demand	Development of human capital



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Source: Developed by the author.

The effectiveness of the institutional and economic mechanism depends not on the activity of one institution, but on the degree of coordination among all labor market participants.

Main channels through which employment affects economic growth

1. Increasing the utilization of labor resources

The involvement of unemployed or economically inactive individuals in productive employment expands the production potential of the national economy.

In simplified form, the production function may be expressed as:

$$Y = A \times F(K, L, H)$$

where:

Y – output or GDP;

A – technology and total factor productivity;

K – capital;

L – labor resources used in production;

H – quality of human capital.

Institutional employment policy increases not only the quantitative participation of labor, represented by **L**, but also improves the quality of human capital **H** through training, retraining, and professional development.

2. Increasing labor productivity

One of the major institutional problems in the labor market is the mismatch between worker qualifications and employer requirements.

When a highly qualified worker is employed in a position that does not fully utilize his or her skills, the economy experiences hidden productivity losses.



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Digital labor platforms, recruitment agencies, professional career guidance, and skills certification systems can improve labor allocation and direct workers toward more productive occupations.

3. Increasing household income and aggregate demand

Employment growth contributes directly to the increase in disposable household income.

The multiplier effect can be represented as:

$$\Delta Y = k \times \Delta AD$$

where:

ΔY – change in national output;

k – multiplier coefficient;

ΔAD – change in aggregate demand.

When employment increases, household income and consumption expenditures rise.

Higher consumption encourages enterprises to expand production, which creates additional demand for labor.

Consequently, a positive cycle emerges:

Employment → Income → Consumption → Production → New Employment

4. Strengthening entrepreneurship and investment activity

Employment policy should be closely integrated with entrepreneurship development.

Providing citizens with access to business financing, professional knowledge, consulting services, and market infrastructure can produce two simultaneous effects:



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1. it ensures self-employment;
2. it creates enterprises capable of generating additional employment in the future.

Therefore, microfinance, start-up support, family entrepreneurship, services, and local production should be regarded as integral instruments of employment policy.

5. Formalization of informal employment

Formal employment improves not only employment indicators but also the overall quality of economic growth.

An expansion of formal employment results in:

- stronger protection of labor rights;
- wider social insurance coverage;
- higher tax revenues;
- better statistical coverage of economic activity;
- improved pension rights;
- greater financial inclusion.

Therefore, formalization strengthens the institutional foundations of sustainable economic development.

Conceptual econometric model

The impact of institutional employment factors on economic growth can be empirically evaluated using the following panel regression model:

$$GDPG_{it} = \beta_0 + \beta_1 EMP_{it} - \beta_2 UNEMP_{it} + \beta_3 LP_{it} + \beta_4 INV_{it} + \beta_5 INST_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where:

$GDPG_{it}$ – real economic growth rate in region i during period t ;



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EMP_{it} – employment rate;

$UNEMP_{it}$ – unemployment rate;

LP_{it} – labor productivity;

INV_{it} – investment level;

$INST_{it}$ – integral index of employment institutional efficiency;

μ_i – region-specific effects;

λ_t – time effects;

ε_{it} – error term.

The model can be estimated using regional panel data for Uzbekistan through:

- Pooled OLS;
- Fixed Effects;
- Random Effects;
- Two-Way Fixed Effects.

The following research hypotheses can be tested:

H1: An increase in the employment rate has a positive and statistically significant effect on economic growth.

H2: A decrease in unemployment contributes positively to GDP or regional output growth.

H3: Higher efficiency of employment institutions contributes indirectly to economic growth through improved labor allocation and higher productivity.

Employment institutional efficiency index.

To evaluate institutional development more comprehensively, it is proposed to create an **Employment Institutional Efficiency Index (EIEI)**.

The index can be expressed as:

$$EIEI = w_1F + w_2D + w_3S + w_4R + w_5M$$

where:



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F – formal employment rate;

D – level of digitalization of employment services;

S – effectiveness of vocational training and skills development;

R – effectiveness of public and private recruitment institutions;

M – degree of matching between labor demand and labor supply;

and $w_1...w_5$ represent weighting coefficients whose total equals 1.

The proposed index would make it possible to evaluate not only the final level of employment but also the institutional quality of mechanisms generating employment.

This approach is particularly important from the perspective of economic theory because it allows the institutional impact on economic growth through the labor market to be quantified.

PRIORITY DIRECTIONS FOR IMPROVING THE INSTITUTIONAL AND ECONOMIC MECHANISM

1. Development of a unified digital labor market ecosystem

A unified digital system should integrate information from:

- public employment services;
- private recruitment agencies;
- employers;
- educational institutions;
- vocational training centers;
- job seekers.

The digital system should provide real-time information on vacancies, regional labor demand, employee competencies, employment outcomes, and occupations experiencing labor shortages.



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Such integration would significantly reduce information asymmetry in the labor market.

2. Strengthening public-private cooperation in employment

Cooperation between public employment institutions and private recruitment agencies should be expanded.

Private recruitment organizations can contribute to:

- faster identification of suitable candidates;
- more accurate skills matching;
- lower recruitment costs;
- reduction of vacancy duration;
- improvement of labor mobility.

3. Linking employment programs to productivity indicators

The efficiency of employment programs should not be evaluated only by the number of people placed in jobs.

Additional indicators should include:

- sustainability of employment;
- wage growth;
- productivity growth;
- formal employment status;
- employee retention after 6–12 months;
- improvement of professional qualifications.

4. Integrating vocational training with employer demand

Vocational education should be based on actual labor market demand.



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Short-term professional programs, retraining, reskilling, and upskilling should be expanded in sectors where labor demand is high.

The effectiveness of educational institutions should increasingly be evaluated based on graduate employment outcomes rather than simply the number of graduates.

5. Reducing informal employment through economic incentives

The formalization of informal employment should rely not only on administrative control but also on economic incentives.

Such incentives may include:

- simplified registration;
- tax preferences;
- access to credit;
- social insurance;
- pension rights;
- access to public support programs.

6. Introducing a regional employment quality rating

Regions should be evaluated not only according to the number of jobs created but also on the basis of:

employment rate + formal employment + labor productivity + wages + job sustainability

This approach would shift regional policy incentives from the quantity of employment toward the quality of employment.



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Table 3 Expected economic effects of improving the institutional employment mechanism

Improvement measure	Direct result	Medium-term result	Macroeconomic effect
Digital job-matching system	Shorter job-search period	Faster vacancy filling	Higher production efficiency
Vocational retraining	Better skills matching	Higher labor productivity	Real GDP growth
Development of private employment institutions	Stronger competition and better services	Lower transaction costs	More efficient allocation of resources
Entrepreneurship support	Creation of new businesses	New job opportunities	Higher value added
Formalization of informal employment	Increase in formal employment	Broader tax and social insurance base	Stronger fiscal sustainability
Regional labor market forecasting	Earlier identification of skill demand	Better education–labor market alignment	Lower structural unemployment

Source: Developed by the author.

CONCLUSION

The theoretical and statistical analysis conducted in this study demonstrates that employment is one of the most important factors influencing sustainable economic growth.

Its impact is generated not merely through an increase in the number of employed persons but also through more efficient use of labor resources, improvement of human capital, growth of labor productivity, increase in household income, expansion of aggregate demand, development of entrepreneurship, and growth of public revenues.



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The labor market of Uzbekistan demonstrated significant positive changes during 2020–2025.

The employed population increased from approximately 13.236 million to 14.934 million people, while the employment rate increased from 66.0 percent to 70.5 percent.

At the same time, unemployment declined from 10.5 percent to approximately 4.8 percent.

Economic growth also remained relatively high, with real GDP growth reaching approximately 7.7 percent in 2025.

These trends confirm the importance of developing more effective labor market institutions.

The research suggests that the institutional and economic mechanism of employment in Uzbekistan should be based on the integration of public employment institutions, private recruitment agencies, educational institutions, entrepreneurship support organizations, employers, and digital labor platforms.

In this regard, employment policy should gradually shift from the principle of simply “**creating more jobs**” toward the principle of “**creating productive, sustainable, formal, and high-quality employment.**”

The proposed transmission mechanism can therefore be expressed as follows:

Institutional efficiency → Better labor market matching → Productive employment → Higher labor productivity → Higher household income → Expansion of aggregate demand and investment → Sustainable economic growth

Thus, improving the institutional and economic mechanism of employment can become one of the key instruments for supporting long-term economic development, increasing labor productivity, and improving population welfare in Uzbekistan.



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