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THE IMPACT OF REDUCING THE STATE'S SHARE IN THE ECONOMY ON WELFARE

Alishev Shohruh Ulug'bek o'g'li

ABSTRACT

This article analyzes the impact of reducing the state's share in the economy on public welfare from both theoretical and practical perspectives. Based on scientific sources, it examines how a decrease in government participation can activate market mechanisms, improve the competitive environment, stimulate private sector development, and enhance the efficient use of resources. At the same time, the article discusses the potential risks of rapid and uncontrolled reduction of the state's role, including increased social inequality, unemployment, and challenges in strategic sectors. The findings emphasize the necessity of a gradual and balanced approach to optimizing the state's share in the economy.

KEYWORDS

State share, privatization, market economy, public welfare, competition, economic efficiency, social stability, institutional reforms

Introduction

In recent decades, reducing the state's share in the economy has become one of the most significant economic reforms in many countries. This process is primarily aimed at strengthening market economy principles, increasing the role of the private sector, and achieving higher economic efficiency. In some cases, a high level of state participation can slow economic growth, restrict competition, and place an excessive burden on the public budget.

However, the role of the state in the economy extends beyond purely economic functions. Government involvement in areas such as education, healthcare, infrastructure, and social protection plays a crucial role in ensuring public welfare. Therefore, reducing the state's share is a complex and multifaceted issue that requires thorough scientific analysis of its effects on welfare.

The reduction of the state's share in Uzbekistan's economy—through privatization, market liberalization, and the strengthening of the private sector—has led to a significant improvement in welfare in recent years. This process accelerated after 2016, following the assumption of office by President Shavkat Mirziyoyev, and by the end of 2025 it had achieved record-level outcomes. Below, this impact is examined in detail based on official data from the World Bank, the International Monetary Fund (IMF), and national statistics.

Historical Background and Key Stages of Reforms

- Pre-reform period (1991–2016): After independence, the state retained a dominant role in the economy. State-owned enterprises (SOEs) controlled a large share of GDP, while monopolistic structures and strict state regulation prevailed. This reduced economic efficiency and perpetuated poverty, which remained at around 28–30% during the 2000s.

- New reform phase (2017–present):

  - 2017: Liberalization of the exchange rate, which facilitated the attraction of foreign investment and boosted exports.
  - 2020–2025: Implementation of a comprehensive SOE privatization program. Under the 2021–2025 Development Strategy, it was planned to reduce the number of SOEs by 75% (there were more than 2,000 SOEs in 2020).
  - Structural reforms in the energy, chemical, banking, and transport sectors, including tariff liberalization and the promotion of competition.
  - Strategic objective: To increase the private sector's share in GDP to 80–85% and reduce the state's share to below 50%.

- Progress by 2025: Privatization accelerated markedly. Several large banks (e.g., Ipoteka Bank), chemical plants, and energy assets were sold or prepared for initial public offerings (IPOs). In 2026, the privatization of 12 major SOEs, including UzAuto Motors, is planned. The World Bank and the IMF have assessed the process positively, although major enterprises such as Uzbekneftegaz and the Navoi Mining and Metallurgical Complex have not yet been privatized.

These reforms are supported by the World Bank, the IMF, and the Asian Development Bank, as reducing the state's role is expected to enhance efficiency and intensify market competition.

Positive Impact on Welfare: Key Indicators

The reduction of the state's share has improved welfare through private sector growth, increased investment, and job creation. According to end-2025 data:

- GDP Growth:

  - Average annual growth of 5–6% since 2017; 6.5% in 2024; and over 7% in 2025 (7.2% in the first half).
  - GDP reached a record level of €123 billion in 2025 (approximately USD 140–145 billion), representing a twofold increase compared to 2016.
  - Exports grew by 23%, and foreign investment reached €37 billion (around one-third of GDP).

- Poverty Reduction:

  - At the beginning of reforms (2017–2021), poverty under the national poverty line ranged between 17% and 23%.
  - It declined to 8.9–11% in 2024 and further to 5.8–6% in 2025.
  - According to the World Bank's upper-middle-income poverty line (USD 8.3 per day), poverty is expected to fall from 20.7% in 2024 to 16.6% in 2025.
  - In 2025 alone, 1.5 million people were lifted out of poverty; since 2017, welfare levels have improved for approximately 7.5 million people.
  - Key drivers include wage growth (accounting for about 60% of the effect), social assistance, and increased business incomes.

- Employment and Job Creation:

  - Unemployment declined from 5.5% to 4.9% in 2025.
  - Annual employment growth averaged 3–4%, with millions of new jobs created, primarily in the private sector.
  - Youth unemployment remains relatively high (11%) but is on a downward trend.

- Other Social Indicators:

  - Housing construction: 135,000 new apartments were built in 2025.

○ Social protection: Cash transfers were provided to low-income households, including a one-time transfer of 1 million Uzbek soums in 2025 to offset energy tariff increases.

○ Gender equality and education: Improvements in women's rights and expansion of preschool education.

These outcomes are described as a "positive cycle" (higher investment → economic growth → poverty reduction) in World Bank and IMF reports.

Challenges and Risks

Despite notable success, the reform process remains incomplete:

- The state still controls approximately 50–55% of the economy (around 65% in the banking sector and a high share in heavy industry).
- Privatization remains slow; several major assets have yet to be sold, and the process has faced criticism regarding transparency and fairness.
- Competition is insufficient, with monopolistic practices and corruption persisting.
- Regional disparities remain pronounced: welfare levels are higher in Tashkent and major cities than in rural areas.
- External risks include global trade tensions, commodity price volatility, and economic dependence on Russia and China.

Conclusion and Future Outlook

The experience of Uzbekistan demonstrates that reducing the state's share in the economy has substantially improved welfare: GDP has doubled, poverty has fallen by three to four times, and the living standards of millions of people have improved. The World Bank has recognized Uzbekistan as one of the fastest poverty-reducing countries.

If reforms continue—projecting GDP at USD 167 billion in 2026 and a further halving of poverty—the country has a realistic prospect of attaining upper-middle-income status by 2030. Success will depend on completing privatization, advancing institutional reforms, and strengthening competition. Ultimately, this process contributes not only to economic growth but also to social justice and long-term stability.

The evidence is mixed and highly context-dependent:

- Countries with relatively small states and free markets, such as Singapore, Hong Kong, and Switzerland, consistently rank high in per capita income and human development while maintaining low government spending (often 20–35% of GDP). However, these are small, open economies with strong institutions.
- In contrast, Nordic countries (Sweden, Denmark, Norway, Finland) have large states (government spending 45–55% of GDP) funded by broad-based taxes, yet they top global rankings in the Human Development Index (HDI), happiness (World Happiness Report), low poverty, high life expectancy, and even economic competitiveness. Their success suggests that a large state can enhance welfare if institutions are transparent, efficient, and focused on universal rather than targeted benefits.
- Liberalization in developing countries: India's 1991 reforms accelerated growth and lifted hundreds of millions out of poverty, but inequality rose. China's gradual market reforms combined state control with private incentives, achieving massive poverty reduction without fully shrinking the state.
- Recent studies: IMF research (e.g., Ostry et al., 2016) finds that while fiscal consolidation can support growth if focused on inefficient spending, austerity often increases inequality and can hinder durable

growth. OECD data show no clear trade-off between government size and growth below a certain threshold (around 40–50% of GDP).

Reducing the state's share in the economy can improve welfare by boosting efficiency, innovation, and long-term growth, particularly in countries with bloated, corrupt, or overly interventionist governments. However, it frequently comes at the cost of higher inequality, weaker safety nets, and short-term hardship. The most successful models appear to combine substantial economic freedom with a moderate, well-designed state role—providing public goods, universal education/health, and redistribution—while avoiding excessive bureaucracy or distortionary interventions. Outcomes depend critically on institutional quality, initial conditions, the pace of reform, and whether reductions target waste or essential services. There is no universal optimal government size; moderate approaches often yield the best balance between growth and equity.

The findings show that a one-sided approach to reducing the state's share is ineffective. For market mechanisms to function properly in conditions of reduced state participation, a strong institutional environment, the rule of law, and transparency are essential.

Moreover, maintaining a certain level of state involvement in strategic sectors such as energy, transport, education, and healthcare is crucial for ensuring welfare. Otherwise, market failures may arise.

Conclusion

In conclusion, reducing the state's share in the economy has a dual impact on public welfare. Well-planned and gradual reforms can promote economic growth and improve welfare. However, without parallel social protection and institutional reforms, such measures may lead to negative outcomes.

Based on the analysis, the following recommendations are proposed:

Apply a gradual and selective approach when reducing the state's share;

Strengthen social protection systems and support vulnerable population groups;

Create a favorable legal and institutional environment for private sector development;

Maintain balanced state control in strategic sectors.

This approach will contribute to sustainable economic growth and improved public welfare through the optimization of the state's role in the economy.

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