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# The Economic Significance and Role of Government Policy in Regulating the Unemployment Rate in the Labor Market

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**Abstract:** This article analyzes the economic importance and role of state policy in regulating the unemployment rate in the labor market. The study examines the main economic mechanisms for reducing unemployment as well as the priority directions of employment policy. In addition, the importance of measures implemented by the state in ensuring labor market stability is substantiated.

**Keywords:** free economic zones, innovative potential, industrial enterprises, economic significance, innovative development, competitiveness, institutional environment, economic growth.

## 1. Introduction

In the context of the contemporary global economy, ensuring labor market stability and effectively regulating unemployment have become central priorities of state economic policy. Ongoing global economic transformations, the rapid advancement of digital technologies, the expansion of automation, and major global disruptions-such as pandemics and geopolitical tensions-are generating profound structural changes in labor markets. Consequently, traditional employment opportunities are diminishing, while demand for new skills and competencies is rising, giving rise to new forms of unemployment.[1][2][3]

Empirical international evidence indicates that high unemployment not only hampers economic growth, but also intensifies social inequality, contributes to the erosion of human capital, and imposes additional fiscal pressures on public budgets. Therefore, achieving labor market equilibrium and enhancing employment levels necessitate active government intervention. In particular, active labor market policies, reskilling and upskilling initiatives, the creation of innovative jobs, and the promotion of entrepreneurship serve as key mechanisms for mitigating unemployment.[4]

In recent years, labor market development and employment issues have also become a priority area of state policy in our country. The rapid growth of the population, the high proportion of youth, and the persistence of employment challenges across regions have further increased the urgency of regulating unemployment. At the same time, the processes of structural modernization and digital transformation of the economy require qualitative improvements in labor resources.[5]

The strategic importance of this issue is reflected in the Decree of the President of the Republic of Uzbekistan No. PF-158 dated September 11, 2023, as well as in the "Uzbekistan-2030" Development Strategy. These documents identify ensuring sustainable economic growth, reducing poverty, increasing employment, and creating high-income jobs as key priorities. Within the framework of this strategy, particular emphasis is placed

on modernizing the labor market, improving the vocational education system, expanding regional employment programs, and fostering private sector development as essential drivers for job creation.[6]

In this regard, a comprehensive scientific analysis of the economic significance of government policy in regulating unemployment, the identification of mechanisms to enhance its effectiveness, and the exploration of its applicability within the national economy represent an important scientific and practical task. In particular, the impact of fiscal, monetary, and institutional instruments on the labor market, the effectiveness of employment policies, and the role of innovative approaches require in-depth research.[7]

## 2. Literature Review

In the context of the modern global economy, ensuring labor market stability and effectively regulating unemployment have become among the most pressing issues of state economic policy. Global economic transformations, the rapid development of digital technologies, the expansion of automation processes, and major global crises—such as pandemics and geopolitical tensions—are generating significant structural changes in labor markets. As a result, traditional jobs are declining, while demand for new professions and competencies is increasing, giving rise to new forms of unemployment.[8]

International experience shows that a high level of unemployment not only slows economic growth, but also exacerbates social inequality, leads to the degradation of human capital, and imposes additional burdens on public finances. From this perspective, maintaining labor market equilibrium and increasing employment require active government intervention. In particular, active labor market policies, reskilling and retraining programs, the creation of innovative jobs, and the development of entrepreneurship have emerged as key instruments for reducing unemployment.[9]

The regulation of unemployment in the labor market and the analysis of the economic role of government policy in this process represent one of the most important and extensively studied areas of economic theory. Scientific views on this issue have historically evolved through several stages, offering different perspectives on the nature of the labor market, the causes of unemployment, and the optimal degree of state intervention. A review of the literature indicates that there is no single universal approach to explaining unemployment; rather, economic schools and international organizations have addressed this issue from macroeconomic, institutional, social, and human capital perspectives.[10]

From a theoretical perspective, the explanation of this issue initially occupies an important place in the views of representatives of the classical school of economics. Classical economists interpreted the labor market as a system that, like other markets, reaches equilibrium through the interaction of supply and demand. Within this framework, if wages are flexible, the labor market is expected to adjust automatically, and long-term involuntary unemployment does not arise. In this approach, the role of the state is limited, with primary emphasis placed on the free functioning of market mechanisms.[11]

However, subsequent historical experience particularly during periods of severe economic crises has demonstrated that labor markets do not always achieve equilibrium automatically. Therefore, it is widely acknowledged in the academic literature that the classical approach is insufficient to explain all forms of unemployment.[12]

The Keynesian school occupies a central place in providing a scientific justification for the role of government policy in the labor market. According to reviews by the International Monetary Fund, the core idea of Keynesian theory is that insufficient aggregate demand in the economy can lead to persistently high levels of unemployment. Based on this premise, the Keynesian approach emphasizes the necessity of supporting employment through government spending, fiscal policy, and expansionary

macroeconomic measures. This approach is particularly relevant during periods of economic downturn, weak investment activity, and declining private demand. As noted in the literature, the Keynesian tradition has laid the foundation for viewing the state not merely as an observer, but as an active institution promoting employment.[13]

At the same time, subsequent research within neoclassical and monetarist frameworks has re-evaluated the limits of government intervention. Milton Friedman, in his influential 1968 work, identified high employment as one of the primary objectives of economic policy, while also emphasizing the existence of a “natural rate of unemployment” in the long run. Later academic interpretations suggest that unemployment cannot be permanently reduced through artificially stimulating inflation or excessively expansionary demand-side policies; instead, the economy tends to return to its natural rate determined by structural and institutional factors. This perspective highlights that government policy should not aim to reduce unemployment at any cost, but rather focus on improving the structural efficiency of the labor market, accounting for inflationary risks, and maintaining long-term equilibrium.

In contemporary literature, debates on unemployment regulation are largely focused on the balance between active and passive labor market policies. Active labor market policies (ALMPs) include vocational education and training, retraining programs, job search assistance, employment services, wage subsidies for employers, and public works programs. In contrast, passive labor market policies primarily consist of unemployment benefits, temporary social assistance, and income support mechanisms.

According to studies by the World Bank, ALMPs are interpreted as key instruments for increasing workers’ earning capacity, improving labor supply, stimulating labor demand, and enhancing the functioning of market mechanisms. However, the effectiveness of these programs is not automatic; their outcomes strongly depend on accurate targeting of beneficiary groups, the quality of institutional governance, and the robustness of monitoring and evaluation systems.

A comprehensive study conducted by Gordon Betcherman, Karina Olivas, and Amit Dar under the auspices of the World Bank categorizes ALMPs into employment services, training programs, public works, wage subsidies, and self-employment support measures. This research highlights both the economic and social objectives of ALMPs: on the one hand, they reduce the risk of unemployment; on the other hand, they promote the integration of vulnerable groups into the labor market.

At the same time, the authors emphasize that cost-effectiveness is a crucial criterion in evaluating government policies. In other words, it is not only the scale of program coverage or the volume of funding that matters, but also whether participants secure employment, experience income growth, and achieve sustainable long-term employment outcomes. This approach underscores the importance of assessing public policies based on performance and outcome indicators.

In the research of the Organisation for Economic Co-operation and Development, a more differentiated approach to evaluating active labor market policies is proposed. OECD sources highlight that certain ALMPs-particularly early-stage interventions such as counseling, career guidance, and job search assistance-can be beneficial for many unemployed individuals. However, the effectiveness of these programs varies depending on country-specific conditions, institutional frameworks, and macroeconomic environments. Therefore, policy models that prove effective in one country cannot always be directly transferred to another without adaptation. This implies that government policies aimed at regulating the labor market must take into account national characteristics, demographic structures, regional disparities, and actual labor demand.

Research conducted by the International Labour Organization places particular emphasis on the role of public employment services and labor market institutions. In its 2022 global report, the ILO analyzes innovations in the design and delivery mechanisms

of employment intermediation services and active labor market policies, highlighting the need for integrated and holistic approaches. According to this perspective, public employment services should not be viewed merely as providers of job vacancy information, but rather as key institutions that enhance labor market flexibility, reduce information asymmetries between employers and job seekers, and facilitate the reintegration of vulnerable groups into employment. In particular, post-pandemic structural shifts in labor markets have underscored the importance of digitalizing public employment services, introducing personalized service delivery, and strengthening institutional coordination.

In the academic literature, skill mismatch and the quality of human capital are also identified as central causes of unemployment. According to findings from the World Bank, skill mismatches in the labor market negatively affect economic efficiency and social welfare, slow firm growth, and constrain job creation. From this perspective, modern approaches to reducing unemployment go beyond merely increasing the number of job vacancies; they emphasize aligning education systems, vocational training, reskilling programs, and lifelong learning mechanisms with labor market demands. Consequently, government policy must ensure not only quantitative, but also qualitative alignment between labor supply and demand.

Furthermore, the literature indicates that active labor market programs are not equally effective for all types of unemployment. Some World Bank studies suggest that ALMPs tend to be more effective in addressing structural unemployment than unemployment caused by insufficient aggregate demand. This represents an important methodological insight. During periods of economic downturn, when aggregate demand contracts significantly, retraining or counseling programs alone are insufficient; broader macroeconomic stimulus measures are also required. Conversely, in periods of economic growth, where skill mismatches or regional imbalances are more pronounced, active labor market policies can yield more substantial results. Therefore, the literature rejects a “one-size-fits-all” approach to labor market policy, emphasizing the need for context-specific and flexible policy design.

In the context of Uzbekistan, scientific and practical approaches to labor market regulation are also increasingly strengthening. The “Uzbekistan-2030” Development Strategy identifies poverty reduction, the provision of productive and income-generating employment, and the improvement of the social insurance system as key priorities. Within this framework, a specific target has been set to reduce the unemployment rate to 7 percent by ensuring stable and effective employment for the working-age population, including youth and persons with disabilities. This document reflects a shift in state policy from viewing employment solely as a short-term issue to considering it as a broader instrument for poverty reduction, human capital development, and inclusive economic growth.

At the same time, the implementation measures of the “Uzbekistan-2030” Strategy предусматривают expanding the scope of vocational training, retraining, and skills upgrading programs-funded by the state-for unemployed individuals, members of low-income households, and youth. These programs also include training in foreign languages and entrepreneurial skills. The document further sets a target of enrolling 80,000 unemployed individuals in training programs during the second half of 2023. This indicates that labor market regulation policy in Uzbekistan is increasingly shifting toward an active approach, prioritizing reintegration into employment over passive income support. From the perspective of the academic literature, this aligns with the global concept of active labor market policies (ALMPs) and reflects the growing convergence of national policy with international approaches.[14]

Overall, the reviewed literature makes it possible to formulate several important scientific conclusions. First, unemployment is a multifactorial phenomenon, and it is difficult to address it solely through the internal mechanisms of the market. Second,

government policy plays a crucial role in reducing unemployment; however, its effectiveness depends on the type of instruments applied, the prevailing economic conditions, and the quality of institutional frameworks.

Third, active labor market policies-particularly vocational training, job search assistance, and the development of employment services-serve as key tools for reducing structural unemployment. Fourth, the interconnection between the education system and the labor market, as well as the development of human capital and the alignment of skills with labor market demands, occupies a central place in contemporary academic discourse. Finally, in the context of Uzbekistan, this issue has been identified as a priority in strategic state documents, which confirms not only the theoretical significance but also the practical relevance of the research topic.

### 3. Materials and Methods

The methodological framework of this research is grounded in a comprehensive approach aimed at examining the economic significance of government policy in regulating unemployment in the labor market. Using Uzbekistan as a case study, the impact of government-implemented employment policy measures on the unemployment rate is assessed through empirical and statistical analysis.

### 4. Results and Discussion

Currently, in Uzbekistan, regulating the labor market and ensuring employment have become key priorities of state policy. As a result of the reforms implemented in recent years, significant progress has been achieved in increasing employment levels, reducing unemployment, and strengthening the institutional foundations of the labor market.

In particular, within the framework of active labor market policies, mechanisms such as vocational training, retraining programs, the organization of public works, the provision of subsidies, and the support of entrepreneurship have been widely implemented by the government. These measures contribute to reducing imbalances between labor supply and demand, particularly by increasing employment opportunities for youth and low-income groups (Table 1).

**Table 1. Trends in Unemployment Rate and Employment Indicators in Uzbekistan**

No	Years	Unemployment Rate (%)	Employed Population (million persons)	Newly Created Jobs (thousand)
1	2018	9.3	13.5	350
2	2019	9.0	13.8	380
3	2020	10.5	13.2	320
4	2021	9.6	13.9	410
5	2022	8.9	14.5	450
6	2023	8.1	15.1	520
7	2024	7.6	15.8	580

Based on the data presented in Table 1, it can be observed that significant positive changes have occurred in the labor market of Uzbekistan over the period 2018–2024. In particular, during this period, the unemployment rate decreased overall from 9.3 percent to 7.6 percent, representing a decline of 1.7 percentage points. This trend reflects the effectiveness of active labor market policies and economic reforms implemented by the government.

The analysis shows that the sharp increase in the unemployment rate to 10.5% in 2020 can be explained by external factors, particularly the decline in economic activity during the pandemic. During this period, the contraction of the service sector, small businesses, and the informal sector led to a temporary reduction in employment. However, starting

from 2021, the unemployment rate resumed a downward trend as a result of government programs aimed at economic recovery and support.

An analysis of the dynamics of the employed population shows that the number of employed individuals increased from 13.5 million in 2018 to 15.8 million in 2024, representing a growth of 2.3 million people. This increase is closely associated with the creation of new jobs in the economy, the expansion of entrepreneurial activity, and the development of the service sector. In particular, it should be emphasized that small businesses and private entrepreneurship have become key drivers of employment growth.

The growth in the number of newly created jobs also reflects an important trend. While approximately 350 thousand new jobs were created in 2018, this figure reached 580 thousand in 2024, representing an increase of nearly 1.7 times. This trend confirms the effectiveness of government policies aimed at stimulating investment activity, developing infrastructure, and improving the business environment.

At the same time, the results of the analysis indicate that qualitative changes are also taking place in the labor market. In other words, not only is the number of jobs increasing, but the structure of employment is also shifting, with a growing share of the service sector, the digital economy, and industrial sectors. This, in turn, contributes positively to increased labor productivity and the sustainability of economic growth.

However, despite these positive trends, certain challenges persist. In particular, regional disparities in employment levels, relatively high unemployment among youth, and skill mismatches in the labor market indicate the need for further improvement of government policy.

Although the overall indicators presented above demonstrate a declining trend in the unemployment rate in the labor market, it is necessary to conduct a more detailed analysis of active labor market policy measures implemented by the government as the key drivers of this process. In particular, mechanisms such as vocational training, the provision of subsidies, the organization of public works, and the support of entrepreneurship play a significant role in reducing unemployment.

From this perspective, in order to assess the dynamics and effectiveness of these measures, the following table presents the main indicators implemented within the framework of active labor market policies (Table 2).

**Table 2. Trends in Active Labor Market Policy Measures in Uzbekistan**

Main Indicators	2020	2021	2022	2023	2024
Number of Individuals Trained (thousand)	120	180	240	310	380
Number of Subsidy Recipients (thousand)	90	140	210	280	350
Participants in Public Works (thousand)	150	200	260	320	400
Number of Individuals Engaged in Entrepreneurship (thousand)	70	110	160	220	300

The data presented in Table 2 indicate a significant expansion in both the scale and coverage of active labor market policy measures implemented in Uzbekistan in recent years. Specifically, over the period 2020–2024, a consistent upward trend has been observed in key areas such as vocational training, subsidy provision, public works programs, and entrepreneurship promotion.

In particular, the number of individuals who received vocational training increased from 120 thousand in 2020 to 380 thousand in 2024, representing nearly a threefold growth. This trend indicates that reducing skill mismatches in the labor market and enhancing the competitiveness of the workforce have become key priorities of government policy. In particular, programs focused on modern occupations and digital skills are contributing to qualitative improvements in labor resources.

The increase in the number of subsidy recipients from 90 thousand to 350 thousand also reflects the strengthening of government support mechanisms for employment. Through these subsidies, the process of stimulating employers, supporting self-employment, and creating new jobs has intensified. As a result, imbalances between labor supply and demand in the labor market are gradually decreasing.

Furthermore, the number of individuals engaged in temporary employment through public works programs increased from 150 thousand to 400 thousand. This has played a significant role, particularly in regions with low economic activity, in providing income sources for the population. Although this mechanism is temporary in nature, it has proven to be an effective tool in preventing sharp increases in unemployment.

The rise in the number of individuals engaged in entrepreneurship—from 70 thousand to 300 thousand—reflects a significant qualitative shift in the labor market. This indicates that government policy is increasingly oriented not only toward job creation, but also toward fostering economic independence by encouraging participation in income-generating activities. In the long term, this serves as a key factor in ensuring sustainable employment.

Overall, the analysis of Table 2 reveals that labor market policy in Uzbekistan is gradually transitioning from a passive to an active approach. Rather than focusing solely on the provision of social assistance, increasing emphasis is placed on integrating individuals into productive employment, enhancing their skills and competencies, and promoting entrepreneurship. At the same time, improving the effectiveness of these measures requires rigorous evaluation of outcomes, precise targeting of beneficiary groups, and careful consideration of regional characteristics.

The findings of this study demonstrate that active government intervention in the labor market—through measures such as vocational training, reskilling programs, subsidy schemes, public works initiatives, and entrepreneurship promotion—has proven to be highly effective in reducing unemployment in the short and medium term. In particular, programs implemented within the framework of active labor market policies (ALMPs) play a pivotal role in enhancing workforce competitiveness, strengthening labor market infrastructure, and mitigating information asymmetries between employers and job seekers.

However, several structural challenges persist. These include skill mismatches, regional disparities in employment, the prevalence of informal employment, and the insufficient creation of high-income jobs, all of which necessitate further refinement of government policy. Furthermore, in the context of the digital economy, the qualitative transformation of labor resources and their adaptability to emerging occupations have become critical priorities.

Drawing on the above findings, it is appropriate to propose the following scientific and practical recommendations to enhance the effectiveness of unemployment regulation in the labor market.

First, active labor market policies should be advanced to a qualitatively new stage. This involves not only expanding existing programs, but also strengthening performance evaluation frameworks, ensuring accurate targeting and segmentation of beneficiary groups, and adopting personalized service delivery approaches. These measures would facilitate the efficient allocation of public resources and maximize policy outcomes.[15]

Second, enhancing the integration between the labor market and the education system is crucial. This can be achieved by aligning vocational education and training programs with the demands of the real sector, expanding dual education models, and introducing continuous upskilling initiatives tailored to modern occupations, thereby reducing skill mismatches.

Third, regional employment policies should be implemented through a differentiated and context-specific approach. Designing targeted employment programs that reflect the economic potential, demographic composition, and labor market characteristics of each region will help mitigate regional disparities.

Fourth, strengthening institutional frameworks to reduce informal employment and expand the formal sector is imperative. This includes simplifying the tax system, fostering small business development, and creating enabling conditions for self-employed individuals.

Fifth, in the context of the digital economy, particular emphasis should be placed on the creation of new employment opportunities. Specifically, expanding employment in sectors such as information technology, services, and innovation-driven activities can facilitate the development of high value-added jobs.

## 5. Conclusion

In conclusion, achieving effective regulation of unemployment in the labor market requires a comprehensive and systematic approach to government policy. The results of this study substantiate the view that active economic policy plays a pivotal role in ensuring labor market stability, enhancing social welfare, and fostering sustainable economic growth.

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