

THE CONFINEMENT OF THE KNOWLEDGE ECONOMY: CONSEQUENCES FOR ECONOMIC STAGNATION AND INEQUALITY

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Abstract: In the article basics factors of restriction of the knowledge economy and its reason are described. On the other hand, close connection of economy knowledge and society, the importance of knowledge economy are noted.

Keywords: confinement, economic stagnation, economic inequality, redressing the sources, redressing the sources, demoralizing, demoralizing.

INTRODUCTION

The confinement of the knowledge economy has momentous consequences for the economy and the society. Today it has become the single most important cause of both economic stagnation and economic inequality. To overcome this confinement by moving in the direction of an inclusive vanguardism would be to reignite accelerated growth and to begin redressing the sources of extreme inequality in the hierarchical segmentation of the economy. The most advanced practice of production may not be the most efficient in its early manifestations. However, it is the one with the best chance of reaching and the frontier of productivity and staying at it. To acquiesce in its confinement to fringes within each sector of the economy is to deny the vast majority of workers and firms the level of productivity that our technical achievements have already made possible but that our economic and social arrangements have failed to make available to ordinary workers. Moreover, the most advanced practice of production is historically the one with the greatest power to inspire imitation and change in the rest of the economy. To allow it to remain the prerogative of a technological and entrepreneurial elite is to deprive the rest of the economy of its greatest potential source of direction and inspiration. It is as if we had decoupled the locomotive from the rest of the train.

The effect of this failure is all the more startling and demoralizing if - as happens with the knowledge economy - the advanced practice has no intrinsic relation to any particular sector and has in fact gained a foothold in many sectors, though always as fringe. One of the most significant and least obvious ways in which confinement contributes to stagnation is by its effect on the vanguard itself, even in those parts of the production system and the labor force in which this vanguardism thrives. If it is true that a practice of production develops and reveals its potential only as it adapts to a broad range of circumstances, then the insular form of the practice will also be likely to be misunderstood even by its own agents and beneficiaries. It will be easily mistaken for its most superficial or accidental characteristics, such as those that marked the hightechnology industries and regions in which it first appeared. Unlike mass production before it, it will lack an accepted theory or doctrine endowing it with a canonical form and a widely

accepted significance. It will be at once fashionable and obscure.

The consequences for inequality are no less significant. The insularity of the knowledge economy, and its relative poverty of jobs, deepen the hierarchical segmentation of the economy. An increasing proportion of wealth is produced by a diminishing part of the labor force. What I have labeled hyper-insularity aggravates this tendency. The job structure associated with mass-production industry and its counterpart in services gets broken up into two pieces. The larger piece is composed of lower-wage jobs in services rendered in the domestic market and in conventional manufacturing work carried out in countries that offer the cheapest labor and the lowest taxes. They may offer work in the leftover of declining mass production, remaining viable only at the cost of low returns to labor and a low take. Or they may offer work in a variant of mass-production manufacture that has become the sidekick of the mega-firms of the knowledge economy, as they learn how to routinize parts of their production process and assign the commoditized parts of their business to the sidekick firms, often in faraway places. The second piece of the new labor market is the privileged one: the relatively small number of jobs established in the recesses of the genuine and exclusive knowledge economy. In the wake of the continuous decline of mass production and its reduction to leftover or sidekick, there results what has been described as the "hollowing out of the middle of the job structure." Progressive taxation and redistributive social entitlements can be effective in moderating inequality generated by the established arrangements of the market economy so long as inequality does not become too extreme. Beyond an ill-defined threshold, the structural realities overwhelm the corrective measures.

Corrective redistribution on either the revenue-raising side of the budget (progressive taxation) or the spending side (redistributive social entitlements and transfers) would need to become massive to compensate for the vast disparities generated by the chasm between the vanguards and the rearguards of production. Long before it reached that point, corrective redistribution would begin to clash with established economic institutions and incentives and to exact a price in foregone economic growth that would be widely regarded as intolerable. It is one thing for progressive taxation -- one side of corrective distribution to extend the logic of established arrangements; it is another thing for it to contradict that logic. In this latter, humanizing role, it can make a decisive difference only by going very far toward overturning the market-determined outcomes and disorganizing the economy. No wonder, it is almost never allowed to go that far. It is stopped long before. The more promising route is to organize a different market economy, one that generates less inequality and more widely distributed stakes, instruments, capabilities, and opportunities in the first place.

A high tax take will be needed to fund the state that such a reconstruction of the market order requires: a state that is able to invest in people and their capabilities as well as in the physical infra-structure of production, to sponsor the costliest and most radical technological innovations, and to partner, to that end, with emergent or established private enterprise in return for stakes in their future. Similar reasoning applies to the other side of corrective redistribution: social entitlements and transfers. They will always be insufficient to compensate for the stark inequalities rooted in chasms between the advanced and backward parts of the production system. Their more compelling and effective use is of a different order: they can do a great deal to form people who are unafraid and capable enough to become the agents of a changed economy. In this respect, we would continue in a different different register most important accomplishment of 20th-century social democracy: its massive investment in people and their capabilities, paradoxically financed by the regressive and indirect taxation of consumption. We would do so while overcoming the greatest limitations of historical social democracy: its abandonment of the effort to innovation in the institutional arrangements of the market and of democracy, its lack of a progressive approach to the supply side of the economy, its single-minded emphasis on corrective redistribution rather than on change in the arrangements determining the primary distribution of economic advantage, and its subordination of the ideal of a shared empowerment in both economic and political life to attempt to the humanization of a largely untransformed economic regime.

If our aim is to connect the logic of economic growth with a movement toward inclusion and greater equality of opportunities, capabilities, and stakes, the chief way to reach it is not through after-the-fact correction -- the effort to humanize an economic order that we despair of reimagining and reshaping. It is to reimagine and to reshape that order. Instead of the fantastical wholesale substitution of the established economic regime by an imaginary, readymade alternative, we need cumulative structural change, undertaken piece by piece and step by step. In such an endeavor, no task is more important than to confront the inequality-aggravating effects of the present confinement of the most advanced practice of production. Three propositions summarize and begin to explain the comparative fiscal experience of the richest economies of today with respect to inequality. Although these principles are relatively simple and straightforward and supported by what is now long and dense experience across a wide array of different circumstances, they remain largely alien to the discourse of social democracy and social liberalism -- the most characteristic projects of governing elites in the North-Atlantic countries of the present. The first proposition is that initiatives influencing the institutional arrangements that organize access to economic and education opportunity and capability, and consequently shape the primary distribution of advantage, are what matters most to the future of inequality. They overshadow everything that can be accomplished by way of after-the-fact redistribution through progressive taxation and redistributive entitlements and transfers. Today the chief locus of the contest over the anchoring of inequality in economic arrangements is the struggle over the future of the most advanced, knowledge-deep practice of production: whether it is to remain confined to insular vanguards, as the province of an entrepreneurial and technological elite, or to set its mark on the entire economy.

Summing up all facts above it should be highlighted that in every moment of economic history there is a most advanced practice of production. It may not be, when it first appears and begins to spread, the most efficient practice: the one that achieves the greatest output relative to the inputs required to make it. It is, however, the most promising practice: the one with the greatest potential to stay at the frontier of productivity, having reached it, and to inspire change across the economy. It possesses, in higher measure than rival practices of production, the attributes of fecundity and versatility, assuming varied forms in different settings. The study of the most advanced practice of production is the most rewarding source of insight into the workings of the economy and its possible futures because the most advanced practice is the variant of economic activity that most fully reveals our powers. Just as the most advanced practice changes over time, as one most advanced practice succeeds another, so does our conception of what makes a practice more advanced than its predecessors also shift. In the light of the most advanced practice of our time, we change ideas about how economies do and can work.

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