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EDUCATION AND HEALTHCARE EXPENDITURES IN THE STATE BUDGET: A STRATEGY FOR INVESTING IN HUMAN CAPITAL

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Abstract: This article examines the economic nature of expenditures from the state budget allocated to the education and healthcare sectors and their strategic importance in the formation of human capital. The article studies the correlation of the Gary Becker and James Heckman models in Uzbekistan's social policy and statistically analyzes the dynamics of social spending in 2024–2026. Scientific recommendations are also given to increase the effectiveness of budget funds allocated to the social sector and to eliminate structural problems.

Keywords: state budget, social expenditures, human capital, education system, healthcare, Heckman curve, social transfers.

In the modern post-industrial economy, a country's competitiveness is determined not by its natural resources or physical capital, but by its intellectual potential and the level of health of its population, that is, human capital. Social sector spending, in particular, financing the education and healthcare systems, is not just a current consumption expense, but rather the most profitable long-term investment that guarantees the state's future economic growth.. [1]

The main goal of the reforms being carried out in the Republic of Uzbekistan is to honor human dignity and ensure its well-being. Therefore, more than half of the country's budget expenditures are directly spent on the development of the social sphere. Improving the quality of education, expanding preschool education coverage, improving primary health care, and modernizing hospitals are the top priorities of budget policy. [2]

Nobel Prize-winning economist Gary Becker has shown in his fundamental scientific work that human capital (knowledge, skills, health) is the most important driver of economic growth. He believes that investments in education and healthcare increase productivity and ultimately increase tax revenues, just like investing in a new factory or technology.

Another economist, James Heckman, proposed the "Heckman curve" (Heckman Equation) theory [4]. This theory suggests that every dollar invested by the state in the early years of a person's life (preschool education and early childhood health) will yield a much higher economic return (Return on Investment - ROI) than later in life, such as in higher education or adult retraining programs. Therefore, focusing on the lower levels (preschool, school, and primary healthcare) when allocating budget funds across social sectors is the most economically sound strategy.

In the State Budget of the Republic of Uzbekistan, education and healthcare expenditures account for about a third of total expenditures. The table below provides an analysis of real indicators for the period 2024–2026.

Table 1. Dynamics of funding for education and healthcare

[1] O‘zbekiston Respublikasi Iqtisodiyot va moliya vazirligi. "Fuqarolar uchun byudjet" nashri. - T., 2025. - B. 15.

[2]

Social sector areas	2024 (Trln)	2025 (Trln)	2026 (Forecast)
Preschool education system	9.2	11.5	12.8
General secondary education (Schools)	28.1	31.2	32.5
Higher and professional education	7.2	8.5	8.7
Primary health care and emergency care	14.5	16.2	18.5
Hospitals and specialized medical care	12.8	14.8	16.2
Medicines and medical equipment	4.5	5.5	6.5
TOTAL SOCIAL SECTOR	76.3	87.7	95.2

Source: Author's calculations based on data from the Ministry of Economy and Finance of the Republic of Uzbekistan.

The table shows that the total secondary education funding volume has the largest share and is expected to rise from 28.1 trillion in 2024 to 32.5 trillion in 2026. In the health sector, however, funding towards primary care facilities and the ambulance system is demonstrating a dynamic growth rate .

As funding for education and healthcare increases, the need to strengthen oversight of their targeted and effective use also arises. Cases of artificial price increases (overpricing) in construction and reconstruction work, as well as in the procurement of medical equipment and medicines, place a negative burden on the state budget.

For many years, budget funds were allocated to sectors based on an "institutional approach" (based on the number of schools or hospitals, the area of premises, and the number of staff). This approach does not allow for a comprehensive assessment of the quality of education and the effectiveness of medical services.

Strategic directions for improving the system:

* Introduction of the voucher system: Allocation of funds in higher and secondary education in the form of vouchers directly to the student or learner (the principle of "funds follow the learner") rather than to the institution.

* Health insurance mechanisms: Full implementation of the state compulsory health insurance system and financing of hospitals based on the volume of work performed (DRG - Diagnosis-Related Groups).

* Digitalization: Integration of the "Electronic Diary" and "Electronic Clinic" systems with budget control platforms.

Funds allocated from the state budget for education and healthcare are the foundation for the country's long-term sustainable economic growth. To achieve financial efficiency in these areas, it is necessary to digitize the budgeting process and completely transition from traditional estimates to result-oriented and fair competition-based funding models (vouchers, medical insurance).

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