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IMPROVING THE ECONOMIC MECHANISM OF DIVERSIFYING HOUSEHOLD INCOMES

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Abstract:
This article delves into the issues surrounding the improvement of the economic mechanism for diversifying household incomes. The paper analyzes the evolution of theoretical approaches to income diversification, as well as its key principles and characteristics. The research also provides an in-depth look at the foreign experience of household income diversification, highlighting successful strategies from different countries and their effectiveness in expanding household incomes. The article aims to develop modern approaches to stabilizing and expanding household incomes in the context of global economic processes and digital transformation. Additionally, it offers specific recommendations and proposals for diversifying household incomes within the context of Uzbekistan.

Keywords: Household incomes, financial stability, market concentration, financial risks, foreign experience.

Introduction

The topic of improving the economic mechanism for diversifying household incomes is highly relevant in the context of modern requirements and the new conditions of the global economy. Today, the diversification of household incomes worldwide is considered a crucial factor in ensuring economic stability, social welfare, and growth. Expanding household incomes through various initiatives from both the private sector and the government, supporting economically vulnerable segments, and finding solutions to their social problems are increasingly essential, necessitating the improvement of diversification mechanisms. The objective is to create opportunities for households to engage in activities across various sectors, rather than being limited to a single one. To achieve this, it is necessary to improve economic mechanisms, strengthen cooperation between the private and public sectors, and develop effective solutions through the application of innovations. This article analyzes the economic mechanisms of diversifying household incomes and outlines the necessary steps to improve them.

The Evolution of Theoretical Approaches to Household Income iversification

T/R	Period	Basic theories	The main idea	Income diversification
1	XVIII-XIX	Classical Economics	Adam Smith, David Ricardo and other classical economists emphasized specialization in the labor market and efficient allocation of resources.	In classical theories, sources of income in agriculture and industry are considered.
2	XIX-XX	Neoclassical economics	Alfred Marshall, Leon Walras and others studied market equilibrium and the optimal allocation of resources.	Neoclassicists considered the diversification of income sources as a means of reducing risks and ensuring economic stability. During this period, ideas to expand sources of income through private enterprises and investments appeared.
3	XX	Keynesian economics	John Maynard Keynes suggested increasing income and diversifying the country's economy through intervention and job creation.	Keynesian theory considered the possibilities of diversification of the population's income through social programs, infrastructure projects and investments in various sectors.
4	1950 year	Portfolio theory	It was noted that stability can be achieved through a combination of security (for example, agricultural yields) and risky resources (trade, services).	The principle of risk reduction by diversification of financial assets was developed. This idea was later applied to sources of income.
5	1960-1970	Human Capital Theory (Gary Becker)	People's knowledge, skills, experience and health determine their economic value.	Human capital theory recommends that personal or family income be distributed among different industries through diversification.

Source: Compiled by the author based on [1], [2], [3], [4], [5].

The analysis of the data in Table 1 shows that the theory of income diversification has gone through several stages, and the sources of income in the agricultural and industrial sectors were considered in the classical theories [1]. Neoclassicists considered the diversification of income sources as a means of reducing risks and ensuring economic stability. During this period, the ideas of expanding sources of income through private enterprises and investments appeared [2], the Keynesian theory considered the possibilities of diversifying the income of the population through social programs, infrastructure projects and investments in various sectors [3], the principle of reducing risk through the diversification of financial assets was developed. This idea was later applied to sources of income [4], Human capital theory recommends distributing personal or family income to different sectors through diversification [5].

The principle of income diversification and its characteristics.

Income Diversification: An important strategy for achieving financial stability and growth. Income diversification is the process of investing in multiple sources of income, reducing reliance on a single source. The importance of income diversification cannot be understated, as this process provides individuals and businesses with protection in the event of unexpected expenses, unemployment, or loss of income. By diversifying sources of income, individuals and companies can reduce risks, maximize profits, and achieve long-term financial stability and growth. In other words, income diversification means obtaining income from several sources or assets, that is, not relying on just one source. This approach can be used in personal finance and business.

Personal finance

In personal finance, income diversification means getting income from different sources, such as salary, investments, rental property, or other passive income sources. By spreading income across multiple assets or sources, an individual reduces financial risk and increases overall stability. For example, if a person is living solely on his job, he may face financial difficulties when he loses his job. However, if he earns additional income from the rental property, he will have additional income.

In business

Diversification of income in business allows the company to fight against changes in the market, decrease in consumer demand or other external factors. For example, if a company is buying only one product and the demand for that product decreases, the company's profit will decrease. But if the company has diversified its sources of income by selling different products or services, it can continue to receive income from other sources. It should be noted that there is a difference between income diversification and income diversification. Revenue is the total amount of money received by a person or company, including temporary or passive income, while revenue stream refers only to the money received from a specific sale or trade.

The benefits of income diversification

By diversifying sources of income, individuals and companies can reduce their financial risk and increase their financial security. The following benefits are available:

Reducing risks: The risk of relying on a single source can be reduced. For example, if a person becomes unemployed, he can avoid financial difficulties by using other sources of income. Also, a company can expand its sources of income with other products or services to reduce the risk associated with selling only one product. Increasing financial security: With multiple sources of income, an individual or company improves its financial stability. For example, investing in investments such as stocks, bonds or real estate can increase returns and provide stability against economic turbulence. Growth Opportunities: By diversifying sources of income, individuals and companies can expand their financial capabilities and create more revenue opportunities. This can be achieved by offering new markets, products or services. There are eight types of income sources for diversifying income in personal finance and business: Wages: This is the most common type of income and is wholly or partially related to employment. A salary is usually a steady source of income, but its potential for financial growth may be limited. Investment Income: Income from investments such as stocks, bonds, real estate. Business Income: Income from starting or running your own business. Rental Income: Income from renting out property. Royalty or Licensing Income: Income from licensing books, music, or patents.

Foreign experience of income diversification

The concept of diversification means different things to different people, and it is used in different ways. In general, livelihood diversification is understood as the expansion of the range of non-agricultural activities, and this process implies dynamic adaptation mainly through pressures and opportunities. Income diversification means an increase in the number of income sources or their mutual balancing. This means, on the one hand, that total household income comes from several sources, and, on the other hand, that no one source is overwhelmingly superior to the others. Income diversification is also seen as a risk management and adaptation strategy to mitigate the impact of economic hardship. Research shows that income diversification in rural areas contributes to about half of rural income in low-income countries. Poorer rural families tend to diversify more out of necessity, while relatively high-income families tend to do it voluntarily. Diversification has a positive impact on poverty and vulnerability reduction as it increases human capital, experience, skills and readiness for innovation. Policies that ignore diversification in Eritrea's policies are based on a more specific assumption that only one or two factors determine the standard of living of the rural population. Therefore, it is important to fully understand the diversity of income sources and economic activities of rural households as it has implications for poverty reduction and economic growth. We can see the foreign experience of diversifying the income of the population in the example of Eritrea. The purpose of this study is to determine the main sources of agricultural income, income status (IS) and diversification status (DS), as well as to study the main factors determining income diversification [2]. Income diversification is one of the most common risk management and adaptation strategies for people in developing countries. The poor are often the most affected by external shocks and unknown risks, including income and employment shocks, agricultural seasonality, and natural disasters, because they lack sufficient funds or assets to protect themselves. Thus, income diversification is expected to be a reliable strategy for stabilizing the living conditions of many rural residents.

There are various studies that explain income diversification by factors such as "risk mitigation strategies, household shocks, and asset accumulation." During a crisis, people seek to accumulate different sources of income in an uncertain labor market, which helps

protect them from unpleasant situations such as job losses, unstable wage rates, and price fluctuations. On the one hand, when faced with an emergency shock, such as a job loss or illness of a family member, households begin to use more sources of income to maintain their living conditions. On the other hand, from the point of view of efficient use of resources in production, households choose to diversify sources of income to achieve profit maximization.
Therefore, analysis of the effectiveness of income diversification and how it can help poor families continues in Cambodia. This study examines how households implement diversification strategies and their role in maintaining or improving their livelihoods [3]. The impact of technology transfer on production and income levels cannot be underestimated. Technology transfer is the process of exchanging knowledge, techniques and technologies between different countries. Adoption and implementation of technologies will increase the country's production efficiency and increase economic growth and income levels. For example, when a developing country adopts modern equipment and technology, it can automate production processes, reduce labor costs and speed up production. This increases the country's competitiveness in the global market, attracts investments and increases jobs, as a result of which the average income level of the population increases. South Korea and Taiwan are examples of countries that have achieved economic growth through technology transfer. In the 1960s, South Korea transformed itself from a state of agricultural poverty into a global economy through technology transfer. In the 1980s, Taiwan moved to high-tech industries with the help of knowledge from the United States and became the world's leading technology producer. Also, foreign experience can be an important factor in increasing the income of the population. Studying or working abroad offers new skills, knowledge and networking opportunities. However, the effective use of foreign experience should be carried out in accordance with the specific social, economic and political conditions of the countries. Developing countries may have constraints such as lack of infrastructure, capital, technological capabilities and skilled labor. Thus, foreign experience should be adapted to the special conditions of the country [4].

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