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Research Article

# HISTORICAL AND ECONOMIC INTERPRETATION OF NATURAL CAPITAL

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## ABSTRACT

Natural capital can also be referred to as the scope of economic development opportunities. The depletion of resources usually increases the number of ways to overcome an economic crisis. Ensuring economic growth is not an obstacle to the development of a green economy, but failure to take into account damage to economic natural capital leads to poor economic decisions. Since the value of natural capital does not actually exist, in a narrow sense only the functions of providing natural resources are assessed. This leads to neglect of many functions of natural capital and on this basis causes the emergence of global environmental problems. This article examines historical and economic approaches based on the recognition of natural factors of production in revealing the capital nature of natural resources.

## KEYWORDS

Natural capital, sustainable development, Kyoto Protocol, devaluation, trend, environmental balance, productivity, global climate change, natural resource.

## INTRODUCTION

Today's economic growth is largely based on the depletion of natural capital. Limited natural capital cannot maintain future economic trends and sustainable growth of population welfare.

In the modern economy, there is an idea of mutual interchangeability and complementarity of capital types. This idea means that the decrease of one type of capital can be offset to a certain extent by the increase

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of another. However, due to the forced reduction of natural capital to ensure economic development, the increase of other types of capital is becoming more active in developed countries. This requires technological solutions aimed at increasing the technological efficiency of the natural chain connecting the primary raw materials with final products or reducing the involvement of natural resources in the economic circulation.

In most countries, natural capital is interpreted only as natural resources. Consideration of other functions of natural resources for sustainable economic growth has not been established. In other words, the economic importance of all components of nature and the ability to obtain profits corresponding to any capital are neglected.

In countries of the world, freshwater reserves, forest resources, ecosystems unaffected by economic activity, and natural biodiversity constitute an important component of natural capital. Economic indicators that do not account for damage to natural capital or rarely measure it lead to wrong economic decisions. Because the value of natural capital does not exist in reality, only the functions of providing natural resources are evaluated in a narrow sense. This leads to the neglect of many functions of natural capital and, on the basis of this, causes the emergence of global environmental problems.

Although the resource function of natural capital is known, the economic interpretation that regulates it is not fully revealed, and in this regard, consistent research is being conducted by many international organizations.

Mechanisms to prevent global climate change of the Kyoto Protocol (adopted in 1997 and entered into force in 2005) have become a very important subject for expanding the interpretation of natural capital and understanding the economic significance of its functions. These mechanisms made it possible to expand the monetary functions of economic theory, theory of sustainable development and natural capital. Overall, the Kyoto Protocol is an early example of assessing previously unaccounted functions of natural capital and interpreting it as a commodity.

In fact, the economic interpretation of natural capital was first revealed by representatives of the school of physiocrats. In this, F.Kene showed the unique characteristics of land in value creation using land resources as a source of wealth formation.

Also, the scientific justification of the importance of natural resources as a factor of production is the period of formation of the classical school. U. Pette researched the methods of measuring and increasing wealth and singled out land as the initial element of wealth. Analyzing the process of income distribution, A. Smith justified that the product of nature has its own value along with the product of the labor of hired workers. In particular, in addition to wages and depreciation, agricultural produce also brings rent, which represents a monopoly price as a payment for

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the use of land. D. Ricardo developed the theory of rent and determined the value of land. According to him, the existence of rent represents not the generosity of nature, but the scarcity of land.

M.Blaug points out the following against the scientific approaches of the classical school: "In the classical sense, land is primarily a physical and not an economic resource". The classics believe that the production of natural products is an irreversible factor. However, it is an expression of land-capital that has been improved by previous generations and requires expenditure to maintain a certain quality. In this approach, the land must be repaired (reclamation, irrigation, etc.) and intensive use (scientific and technical progress) as a renewable commodity is envisaged.

In the theory of factors of production, J.B.Sey emphasized the equal participation of land in the formation of labor and capital value.

It can be seen that land as the main economic resource is defined by its limitation and irreplaceability in production processes. At the same time, it is based on the fact that the population growth will change the structure of needs, and the factors of production will require an increased income. This is characterized by increased anthropogenic impact on nature, disruption of ecological balance and depletion of natural resources.

In this period, it can be observed that the natural capital narrative was primary compared to the means of production in the reproductive cycle of land resources. Because the land is distinguished by a certain productivity, geographic location, serves as an object for forestry and agriculture, contains mineral reserves and determines the composition of production.

The problems of assessing the impact of economic development on the natural environment were first presented in 1861 by J.S. Mill. According to him, there is a tendency of the rate of profit to decrease, and the growth of the volume of production due to the increase in the amount of capital in a certain area is limited, and this creates economic stagnation. In addition, the economic growth achieved due to national wealth and population growth can have disastrous consequences for the environment. It can be seen that today's problem of sustainable development began to be interpreted intuitively (emotionally) in the past centuries.

Representatives of the neoclassical school did not ignore the importance of nature as a source of wealth. In the researches of L. Walras, the specific characteristics of fixed and circulating capital were analyzed and a fundamental difference was formed between the flow of resource reserves and the income obtained on this basis. Any social wealth that is not spent at all in the long term or is spent only over time is included in the fixed capital. Circulating capital was called "income" or "all forms of immediately expendable social wealth."

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I.Fisher proposed to consider all the processes that allow the creation of an income stream for a certain period of time, taking into account the various forms of manifestation of capital. In this approach, any income is considered capital, and any stock of goods that can be accumulated and used for a long period of time, which produces income, becomes capital. The conclusion that capital is characterized by the excess of income flow over the flow of capital raising costs is also worthy of special attention. In this context, land as capital is a productive reserve, and the larger this reserve is in terms of quantity and quality, the more income its owners can expect in the future.

Analyzing general well-being, A.S.Pigou emphasizes that sustainable development is influenced by the level of security in society, the state of the environment and other factors that cannot be taken into account. According to him, production is often accompanied by environmental pollution. Therefore, he proposed a system that would transfer external costs to internal costs and tax activities related to environmental pollution.

Summarizing the above studies, it should be noted that the introduction of the term "natural capital" into scientific circulation is based on the recognition of the natural factors of production. In revealing the capital nature of natural resources, the depletion of natural resources and the need to invest in their increase, sustainable development and income flow are taken into account. In particular, predictions have been made regarding the decrease of natural resources per capita in the world and the increase in demand for natural capital.

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