Short Elucidating Note 122: Understanding the expected working of traditional markets and the critical issues associated with them in the long-term using flawed development paradigm theory.

By

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Abstract

We know that traditional economic thinking is about full socio-environmental exclusion and that traditional markets are about full socio-environmental cost externalization, and hence they have the characteristics of flawed paradigms, paradigms with abnormalities embedded in them. In other words, traditional markets do have socio-environmental sustainability gaps. Among the goals of this paper are a) to link flawed development paradigm theory with traditional market theory to highlight the expected working of traditional markets and the expected non-optimal socio-environmental outcomes associated with them in the long-term; and b) to indicate how the working of traditional markets is affected by socio-environmental externality production neutrality assumptions and no socio-environmental externality production neutrality assumptions.

Key concepts:

Flawed paradigm, traditional market paradigm, non-optimal outcome, traditional optimal outcome, unsustainability conditions, economic unsustainability conditions, traditional markets, externality production neutrality assumptions, no externality production neutrality assumptions, socio-environmental externality production neutrality assumptions, no socio-environmental externality production neutrality assumptions.

Introduction

a) The expected working of the flawed development paradigm loop

The structure of the flawed development paradigm (FLP) loop and the issues associated with it has been recently stated (Muñoz 2026) as indicted in Figure 1 below:

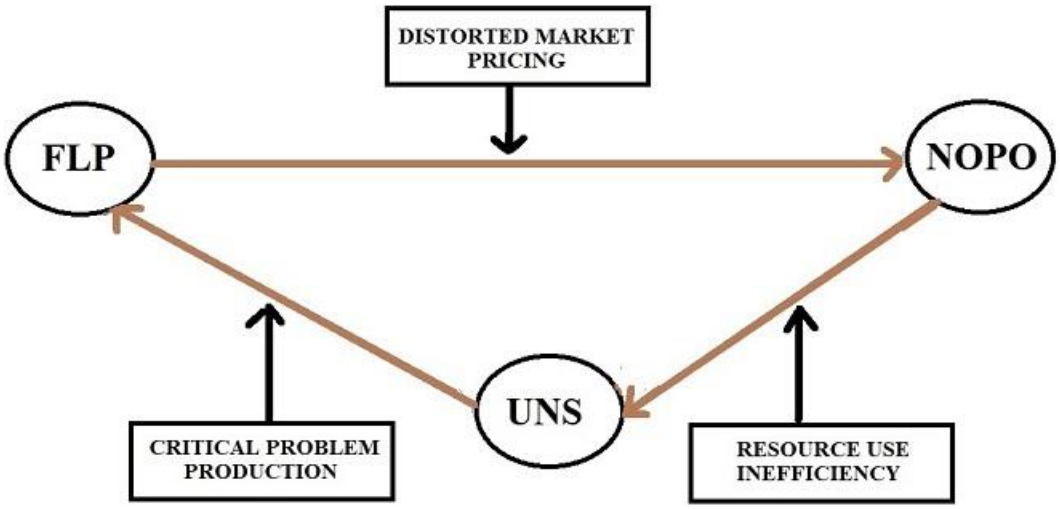

Figure 1 The expected flawed paradigm (FLP) development loop

Figure 1 above tells us the following: a) That there is negative loop flawed paradigm (FLP), non-optimal outcomes (NOPO), and unsustainability conditions (UNS) and back to flawed paradigms (FLP), where flawed paradigms (FLP) create unsustainability (UNS) conditions through time, and they are negatively affected by the accumulation of these unsustainability conditions; and b) that distorted market pricing drives the production of non-optimal outcomes, that this non-optimal outcomes flourish under resource use inefficiency, and that the accumulation of unsustainability conditions culminate with the production of critical problems, which in turn affects the sustainability of the flawed paradigm(FLP). In the long-term the working of this flawed development paradigm (FLP) loop is expected to create critical problems, which will accumulate to the point of inducing paradigm death or inducing vertical paradigm evolution if saving the core values of the flawed paradigms is the aim. In other words, in the long-term the working of this flawed development paradigm (FLP) loop is expected to promote non-optimal pricing/distorted market pricing, resource use inefficiency and a profit seeking world producing critical problems, a world under fully irresponsible development.

b) The need to understand the link flawed development and the idea of the traditional market

We know that traditional economic thinking a la Adam Smith (Smith 1776) is about full socio-environmental exclusion and that traditional markets are about full socio-environmental cost externalization, and hence they have the characteristics of flawed paradigms, paradigms with abnormalities embedded in them. Flawed market paradigm theory has been used recently to highlight the negative consequences of assuming that non-optimal outcomes are optimal ones (Muñoz 2024a), assumptions that lead to golden Trojan paradigms ((Muñoz 2024a), which are found in the critical problem-solving impossibility zone (Muñoz 2025), where in the long-term they either die or evolve vertically to save core values in higher level paradigms. In other words, traditional markets do have socio-environmental sustainability gaps. Among the goals of this paper are a) to link flawed development paradigm theory with traditional market theory to highlight the expected working of traditional markets and the expected non-optimal socio-

environmental outcomes associated with them in the long-term; and b) to indicate how the working of traditional markets is affected by socio-environmental externality production neutrality assumptions and no socio-environmental externality production neutrality assumptions.

Goals of this paper

a) To expand the flawed development paradigm theory and link it to traditional market theory to describe the expected working of traditional markets and the expected non-optimal outcomes associated with them in the long-term; b) To place the traditional market paradigm loop under socio-environmental externality neutrality and no socio-environmental externality neutrality assumptions and highlight the implications of each case; and c) To highlight that traditional markets do have external market failures, and hence, their expansions are non-optimal.

Methodology

1) The terminology and operational concepts are listed; 2) The flawed development paradigm theory is expanded to state the structure of the traditional economic development loop and its implications; 3) The traditional economic development loop is placed under socio-environmental externality production neutrality assumptions and stress the implications of this; 4) The traditional economic development loop is placed under no socio-environmental externality production neutrality assumptions; 5) The structure of the traditional market with socio-environmental sustainability gaps is shared to show the existence of external market failures; 6) The structure and implications of the traditional market expansions is given to highlight that profits cannot be generated without expanding the socio-environmental pollution production problem; and 7) Some food for thoughts and relevant conclusions are shared.

Terminology

FLP = Flawed paradigm NOPO = Non-optimal outcomes

UNS = Unsustainability conditions TM = Traditional market paradigm

TMUNS = Traditional markets unsustainability conditions TOPO = Traditional optimal outcomes

FCE = Full cost externalization FSECE = Full socio-environmental cost externalization

RSP = Remaining sustainability problem RSESP = Remaining socio-environmental sustainability problems

SESGP = Socio-environmental sustainability problems

RSESG = Remaining socio-environmental sustainability gap

SESG = Socio-environmental sustainability gap

NRSP = No remaining sustainability problem

NRSESP = No remaining socio-environmnetal sustainability problem

POPP = Pollution production problem

SEPOPP = Socio-environmental pollution production problem

Operational concepts

i) Flawed paradigm, *a world with abnormalities embedded in it.*

ii) Non-optimal outcomes, *those that take place under abnormality externalization, fully or partial.*

iii) Unsustainability conditions, *those that feed non-optimal development***.**

iv) Traditional market paradigm, *a world with socio-environmental abnormalities embedded in it.*

v) Traditional optimal outcomes, *the ones under full socio-environmental externality neutrality assumptions.*

vi) Traditional market unsustainability conditions, *those which lead to the production of critical socio-environmental problems.*

vii) Full cost externalization, *all externality costs are left out of pricing mechanism of market.*

viii) Full socio-environmental cost externalization, *all socio-environmental externality costs are left out of the pricing mechanism of the market.*

ix) Traditional market paradigm, *the one with socio-environmental externalities embedded in it.*

x) Traditional market price, *the one that clears the traditional market.*

The structure of the traditional market paradigm loop and the absence of optimal pricing

If we make the flawed paradigm(FLP) loop in Figure 1 above be the traditional market paradigm (TM) loop so that FLP = TM, OPO = TOPO, and UNS = TMUNS we arrive to the loop structure shown below:

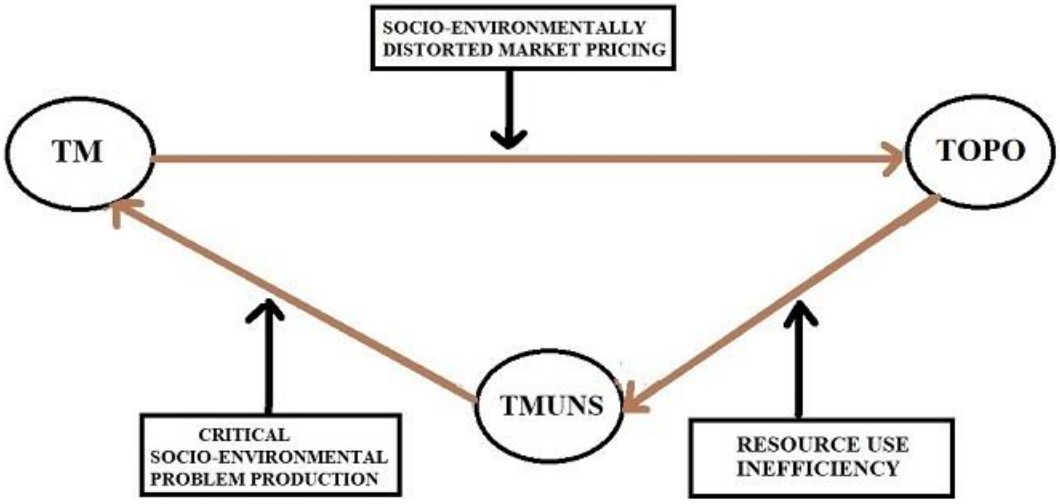

Figure 2 The traditional market paradigm loop (TM) from the socio-environmentally distorted market pricing point of view

Figure 2 above tells us that the traditional market paradigm (TM) loop produces non-optimal traditional outcomes (TOPO), which in turn leads to traditional market unsustainability conditions (TMUNS) that are negatively linked to the working of the traditional market paradigm (TM). Figure 2 above indicates by means of continuous black arrows that the traditional market paradigm (TM) loop does uses distorted market prices, does create resource use inefficiencies, and therefore it leads to critical problem production issues like critical socio-environmental sustainability problems (SESP) or socio-environmental pollution production problems (SEPOPP). Hence Figure 2 above summarizes a negatively feeding traditional market loop from the presence of socio-environmentally distorted market pricing or the presence of non-optimal market pricing point of view.

Implication 1:

The traditional market paradigm loop is linked to the presence of socio-environmentally distorted market pricing, the presence of resource use inefficiency and the presence of critical socio-environmental externality production problems.

The structure of the traditional market paradigm loop and the presence of non-optimal pricing

We can transform the traditional market paradigm(TM) loop in Figure 2 above as indicated in Figure 3 below if we express in terms of the presence of non-optimal market pricing:

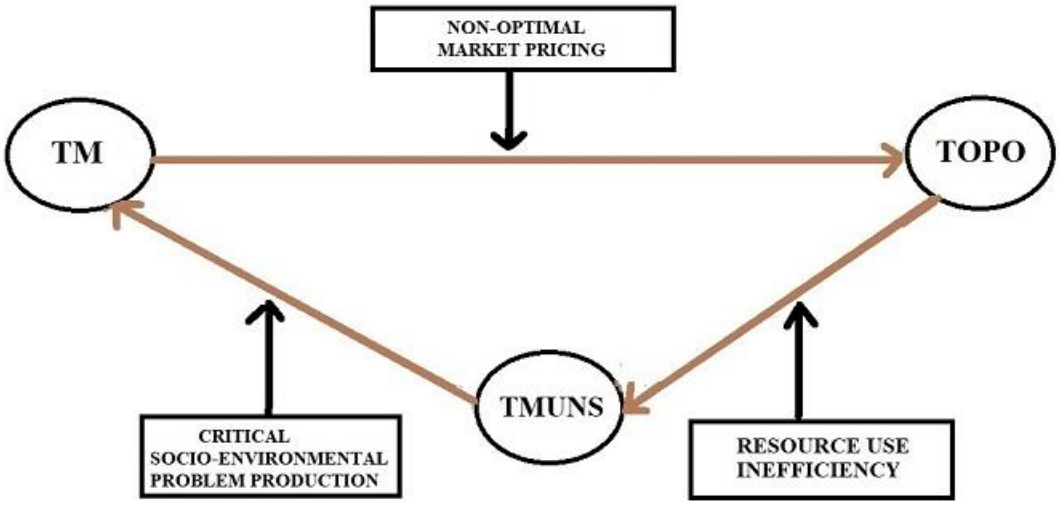

Figure 3 The traditional market paradigm loop (TM) from the non-optimal market pricing point of view

Again, Figure 3 above highlights that the traditional market paradigm (TM) loop leads to non-optimal outcomes (TOPO), which in turn produce traditional market unsustainability conditions (TMUNS) that are negatively linked to the working of the traditional market paradigm (TM). But now Figure 3 above shows by means of continuous black arrows that the traditional market paradigm (TM) loop does uses non-optimal market prices, which drive resource use inefficiencies, and hence, again it does leads to critical socio-environmental problem production issues like critical socio-environmental sustainability problems (SESP) or socio-environmental pollution production problems (SEPOPP). Hence Figure 3 summarizes a negatively feeding traditional market paradigm loop from the absence of optimal market pricing or the presence of distorted market pricing point of view.

Implication 2:

The traditional market paradigm loop is linked to the absence of optimal market pricing, to the absence of resource use efficiency and to the presence of critical socio-environmental externality production problems.

The traditional market paradigm loop under socio-environmental externality production neutrality assumptions

If we place the traditional market paradigm (TM) loop under the externality production neutrality assumption such as the socio-environmental externality production neutrality assumption, we should expect changes in the structure of the loop as the traditional market paradigm(TM) does produces socio-environmental externalities as socio-environmental externality issues are here exogenous issues in this market, a situation depicted in Figure 4 below:

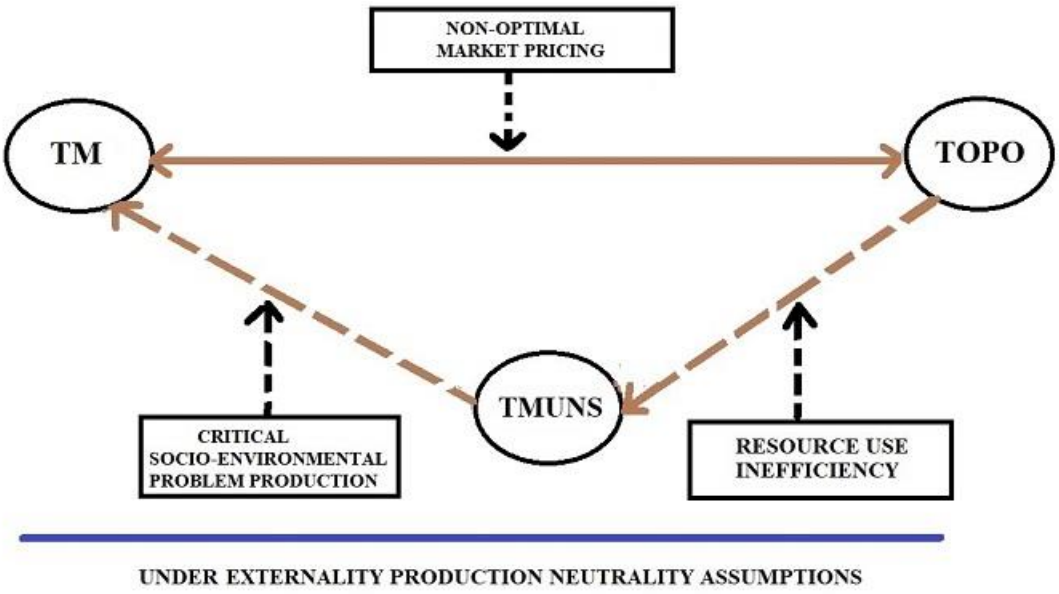

Figure 4 The traditional market paradigm loop (TM) under socio-environmental externality neutrality assumptions

Figure 4 above highlights that the socio-environmental externality production neutrality assumptions does affect the structure of a paradigm that does have abnormalities embedded in it as socio-environmental externality issues are fully externalized in traditional markets, and hence the traditional market loop under these socio-environmental externality assumptions will lead to resource use inefficiency and to a world with socio-environmentally externality problems as non-optimal market pricing is at work here. Notice that under socio-environmental externality assumptions the traditional market loop only has two components: TM = The market and TOPO = Traditional market optimality, which feed back and forth, a loop where the traditional market (TM) can expand as much as it wants always producing optimal outcomes TOPO without producing resource use inefficiencies issues, without producing socio-environmental pollution production issues, without having optimal market pricing issues, and hence, without producing traditional market unsustainability issues (TMUNS) as all these real issues are assumed away as indicated by all the broken black arrows

Implication 3:

The traditional market paradigm loop is affected by socio-environmental externality neutrality assumptions as here socio-environmental externality issues are exogenous issues, which mean that socio-environmental externalities are produced in traditional market paradigm due to full externality externalization that takes place here, but this real issue is assumed away.

The traditional market paradigm loop under no socio-environmental externality production neutrality assumptions

Moreover, if we place the traditional market paradigm (TM) loop under the NO externality production neutrality assumption such as the NO socio-environmental externality production neutrality assumption, we should expect again no changes in the structure of the loop as the traditional market paradigm (TSP) does lead to externalities as externality problems are again exogenous issues in this paradigm so they are real problems that need to be addressed, a situation summarized in Figure 5 below:

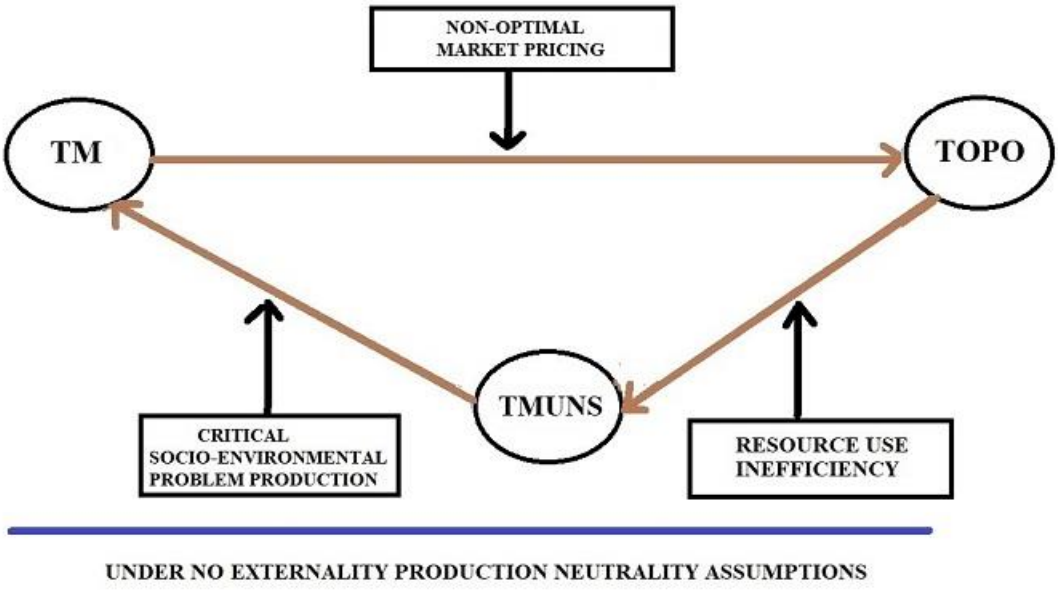

Figure 5 The traditional market paradigm loop (TM) under NO socio-environmental externality neutrality assumptions

Therefore, Figure 5 above points out that also the no externality production neutrality assumptions does not affect the structure of a paradigm as it does have abnormalities embedded in it since externality issues are fully externalized and need attention, so the traditional market loop under these assumptions will lead to resource use inefficiency and to a world with socio-environmental externality problems as again non-optimal market pricing is at work.

Implication 4:

The traditional market paradigm loop is not affected by the no externality neutrality assumptions as externalities are produced while it is at work, issues that sooner or later need to be corrected as they are not or cannot be assumed away.

The structure of the traditional market in terms of supply and demand

In terms of supply and demand, the traditional market (TM) clearing at the traditional market price (TMP) can be stated as shown below:

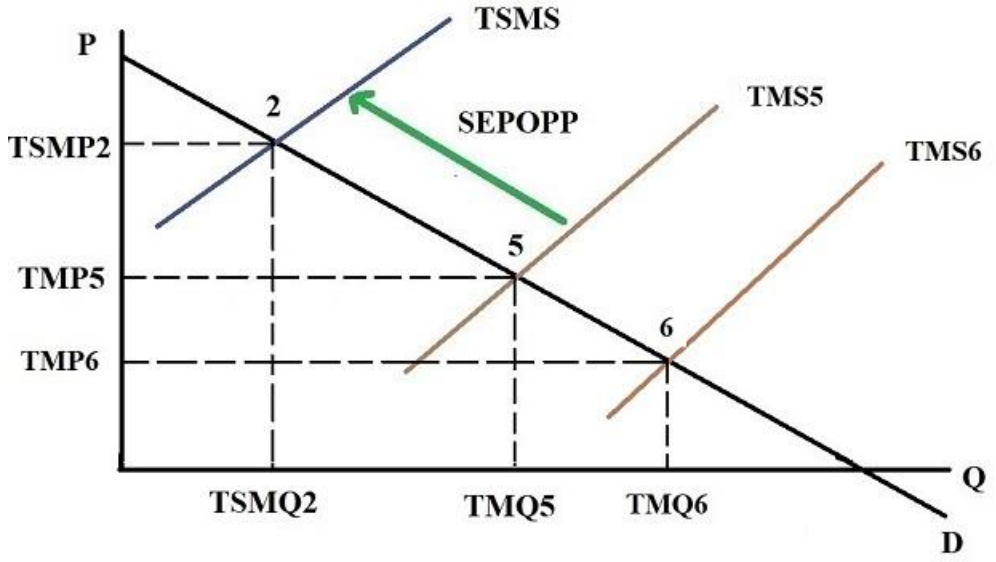

Figure 6 The structure of the traditional market (TM) in terms of supply and demand and the socio-environmental pollution production problem embedded in it.

Figure 6 above displays the structure of the traditional market placed at point 5: i) The market at point 5 is cleared at the traditional market price TMP5 and the optimal traditional quantity produced and consumed is TMQ5; ii) at point 5 there is traditional optimal market pricing by assumption, but in reality there is socio-environmentally distorted traditional market pricing so there is resource use inefficiency, and socio-environmental pollution production issues are created as this point as point 5 is non-optimal in reality; and hence, iii) there is an external market failure at point 5 as socio-environmental externalities or socio-environmental pollution production problems (SEPOPP) are produced as indicated by the continues black arrow going from right to left from point 5 to point 2. We can see also in point 6 above that at point 2 we have a true sustainability market (TSM) cleared by the true sustainability market price TSMP2 and the true sustainability quantity to be produced and consumed here is TSMQ2, and therefore Figure 6 above indicates that there is a socio-environmental pollution production problem SEPOPP separating the traditional market at point 5 from the true sustainability market at point 2. You can see that if we assume that the socio-environmental externality production neutrality assumption holds in Figure 6 above, then we have to assume that there is no external market failure at point 5, we have to assume that non-optimal pricing is optimal, we have to assume that resource use inefficiency is efficient, we have to assume that no socio-environmental problems are created when they are created, and hence we have to assume that no traditional market unsustainability conditions can be produced when they are produced. On the other hand, you can see that if we assume that the no socio-environmental externality production neutrality assumption holds in Figure 6 above, then we have to accept that there is an external market failure at point 5, we have to accept that optimal pricing is optimal pricing, we have to accept that resource use efficiency is efficient, we have to accept that socio-environmental problems are

created and need to be addressed at one point, and hence we have to accept that traditional market unsustainability conditions are produced or can be produced. Notice that if the traditional market goes into full unsustainability under binding socio-environmental pressures it can be fully corrected by shifting it from point 5 to point 2 using full socio-environmental cost internalization leaving no socio-environmental sustainability gaps (NSESG) or no remaining sustainability problem (NRSP) or it can be corrected partially by shifting it somewhere between point 5 and point 2 under partial socio-environmental cost internalization leaving remaining socio-environmental sustainability gaps (RSESG) or remaining sustainability problems (RSP).

Implication 5:

The traditional market is cleared by non-optimal pricing a la traditional market price, and this determines the amount of traditional market based good and services to be produced and consumed and assumed to be optimal, when they are not.

The non-optimal structure of traditional market expansions in terms of supply and demand as they do create socio-environmental problems

Since non-optimal pricing leads to non-optimal expansions that are not fully conjunctural states then expansions go from non-optimal point to non-optimal point as traditional markets tend to produce at the lowest traditional market price possible and therefore, maximum socio-environmental cost externalization possible, which means that it is not possible to make money while reducing socio-environmental pollution production or it is only possible to make money while expanding the socio-environmental pollution production problem (SEPOPP), a situation indicated in Figure 7 below:

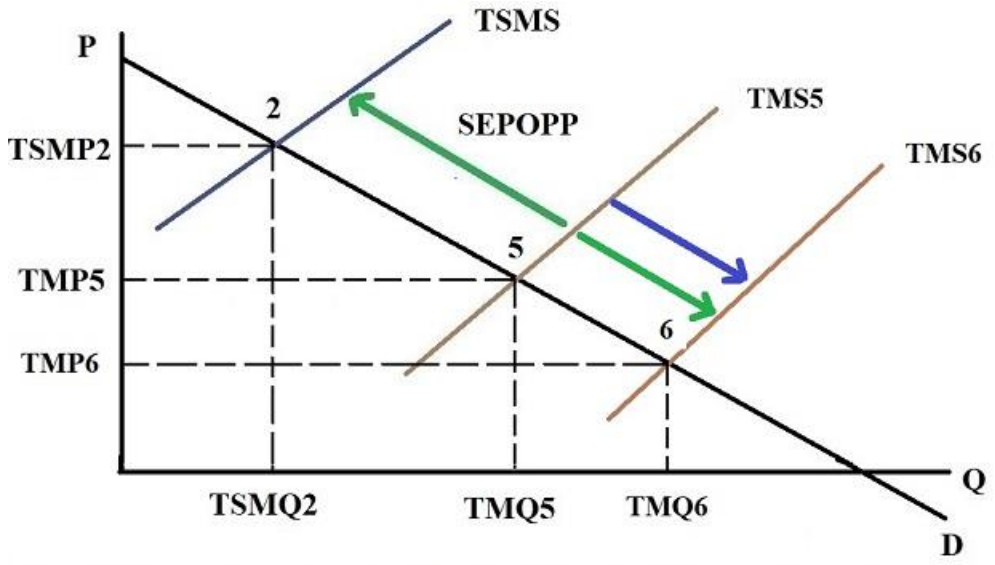

Figure 7 The non-optimal nature of traditional market paradigm (TM) expansions as more production and consumption takes place a lower market prices as TMP6 < TMP5, but the socio-environmental is expanded too as more socio-environmental pollution takes place at the same time

Figure 7 above show the structure of non-optimal expansions a la traditional market, a move from point 5 to point 6 where more traditional market based production and consumption takes place (since TMQ6 > TMQ5) at a lower traditional market price (since TMP6 < TMP5), and an expansion that does produces socio-environmental externality problems as these expansions are non-optimal. Hence, a move from point 5 to point 6 means that traditional market based profits can be increased through market expansions like the one from point 5 to point 6 in Figure 7 above but together with producing socio-environmental externality problems as socio-environmental externality problems are here fully externalized or in other words, profits cannot be increased without expanding the socio-environmental pollution production problem as indicated by the blue arrow going from left to right from point 5 to point 6, which is a situation that sooner or later will lead to paradigm collapse or induced vertical paradigm evolution if saving the core value of economic responsibility of traditional markets is the goal.

Implication 6:

Non-optimal pricing leads traditional market expansions in a profit generation process that does create socio-environmental externality problems.

Food for thoughts

1) Do flawed development paradigms tend to produce at the lowest flawed market price possible? I think Yes, what do you think?; 2) Do traditional markets have sustainability gap problems? I think Yes, what do you think?; 3) Is socio-environmental pollution reduction a good business opportunity under perfect traditional market thinking? I think No, what do you think?; and 4) Do flawed development paradigms have external market failures? I think Yes, what do you think?

Conclusions

First, it was shown that the flawed development paradigm theory can be expanded and link to traditional market based paradigm theory. Second, it was pointed out that when traditional distorted market pricing like socio-environmentally distorted traditional market pricing is present the traditional market loop creates resource use inefficiency trends while producing socio-environmental externality problems. Third, it was indicated that when non-optimal pricing is present we create traditional market unsustainability conditions that drive resource use inefficiency while creating critical socio-environmental problems, and these non-optimal conditions feedback negatively to the traditional market paradigm and its market. Fourth, it was shown that when under socio-environmental externality neutrality assumptions the traditional market paradigm loop under non-optimal pricing is affected as socio-environmental externalities are created during the working of traditional markets, but they are assumed away. Fifth, it was highlighted that when under no socio-environmental externality neutrality assumptions then structure of the traditional market paradigm loop and its non-optimal

consequences do not change as full socio-environmental externality here leads to critical socio-environmental externality problem creation, issues that are accepted and they cannot be assumed away. Sixth, it was said that when stated in terms of supply and demand, the traditional market is the one cleared by the traditional market price. Seventh, it was demonstrated that traditional market expansions are non-optimal expansions; and hence, they do create socio-environmental externality production problems as we produce and consume more traditional market based goods and services at lower and lower traditional market prices driving up traditional market based profits while expanding more and more the socio-environmental pollution production at the same time.

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