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Market and Development: A New Look at the Relationship

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Abstract: This discussion paper critically examines the evolving relationship between markets, development, and governance in the context of growing global inequalities, environmental degradation, and social disparities. It interrogates the neoliberal assumption of market efficiency, highlighting the inherent flaws and externalities often overlooked in the pursuit of growth. Drawing on case studies such as transnational production chains and resource extraction, it exposes the "invisible costs" of land and labour exploitation underpinning market-led development, particularly in the Global South. The analysis situates these dynamics within historical trajectories, from classical economic thought and the "invisible hand" to contemporary debates on sustainability and governance. It also incorporates insights from Endogenous Growth Theory, emphasising the role of human capital, innovation, and knowledge spillovers in shaping long-term development outcomes. Special attention is given to the social and temporal dimensions of markets, arguing that their neglect exacerbates inequality and ecological crises. The paper proposes a governance-based approach that integrates regulatory frameworks, collective decision-making, and behavioural change to complement market mechanisms. India's Lifestyle for Environment (LiFE) initiative is explored as a model for aligning economic incentives with sustainable and inclusive development. Ultimately, the study calls for a paradigm shift from growth-centric market orthodoxy to governance-oriented frameworks that balance efficiency with equity, ecological resilience, and long-term well-being, offering insights for rethinking markets as instruments of sustainable development in the 21st century.

Keywords: Market, Invisible Hand, Externalities, Endogenous Growth, Sustainable Development, and Governance.

1. Introduction

Market is considered the most efficient economic system for resource allocation and distribution under neo-liberalism. The key characteristics of the market that purportedly makes it efficient are in the aspects of

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price mechanism, taking care of demand for and supply of goods and services, leading to competition in the market (Jessop, 2018).This process is obviously based on individual choices, and decentralised decision-making processes.The neo-liberal system is already entrenched in the countries of the Global Northmainly due to the colonial legacy which was the main plank of Industrial Revolution (Gathi, 1999).Various historical and contemporary reasons like the Cold War dynamics, influence of the Multinational and Transnational corporations, and the fruition of the International Organisations (the UN, and Bretton Woods institutions) added further credence to the system (Venzke and Heller, 2021). With decades of interventionist policies followed by strictly conditional development assistance policies (Washington Consensus, and Structural Adjustment Programmes) directed towards the Global South, the neo-liberal system has strengthened its positioning in the rest of the world (Papamichail, 2023). Global South in the process also started showing its own desire towards market led growth through mimetic adoption.[1]

The World is ripe for a re-set in an era of a perfect storm where the planet is observing simultaneous problems of growing inequalities and developmental disparities, greater political risks and security challenges,climate change, ecological imbalances, and environmental disasters, and enhanced risk of public health outbreaks (Hallegatte, 2016). And importantly, it is gradually realised that they are not independent either. The re-set is required not only in people's interaction with each other at both individual and collective levels but, also their interaction with nature and its environment (Magnani, 2022). A corollarial overhaul is also pertinent in our understanding of the market, economy, growth, and development. These realisations and the required reconditioning primarilystem from the voracious appetite of economic growth and continuous quest towards efficiencies which led to recently observedgrowing distrust towards the ideas of globalisation and associated political pushbacks, and unchecked pillageof natural resources which has led to the corresponding environmental degradation, and disasters (Andrews, Grant, Ovadia, 2022).

While market economies are often praised for their efficiency, it's important to note that they are not without flaws. Market failures, such

as externalities, and imperfect information, can limit the efficiency of markets and necessitate non-market intervention to correct these shortcomings (Bator, 2024). While market economies and neoliberal policies have been predominant in the Global North, it's important to recognize that there is diversity within this region, and not all countries have embraced neoliberalism to the same extent.[2] Additionally, there are ongoing debates and critiques regarding the impact of neoliberal policies on inequality, social welfare, and environmental sustainability, both within the Global North and the Global South (Hassel and Palier, 2021). Despite the adoption of market-oriented reforms, the extent to which countries in the Global South have benefited from neoliberal policies varies widely as well.[3] Similarly, the problems of exacerbated inequality, undermined social welfare systems, and environmental degradation in many instances in the countries of the Global South have led to a discussion around the recalibration of market economies and neoliberalism in the Global South (Nguyen, Grote, Neubacher, and Paudel, 2023).

In this paper, we delve into the complexities of market externalities, analysing their causes, consequences, and implications for governance. While market mechanisms excel in optimising individual transactions, they frequently overlook the broader social and environmental impacts associated with economic activities. This oversight necessitates the integration of non-market mechanisms, particularly governance structures, to address market failures and promote collective well-being. Recognising these challenges, we advocate for a governance-based approach that complements market mechanisms with non-market interventions. It may be noted that during its G20 Presidency in 2023, India proposed Lifestyle for Environment (LiFE) to promote environmentally responsible consumption choices and behaviour. The idea of LiFE has attracted attention all across the globe, this paper will look into the implications of LiFE as a model of governance encompassing regulatory frameworks, institutional arrangements, and collective decision-making processes that offers a mechanism for addressing externalities by aligning individual interests with societal goals. Through regulations, incentives,

and inclusive participatory mechanisms, governance can take care of externalities, correct market failures, and foster sustainable development.

The paper is divided into various sections starting with the 'Production, Packaging, and Consumption' section which uses the example of Argentinian pears packaged in Thailand and sold in the US to illustrate the hidden environmental, social, and economic costs of global value chains. It highlights how market-driven efficiencies ignore resource depletion, labour exploitation, and ecological damage, arguing for a fundamental rethink of growth and development beyond conventional market logic. The section on 'Market and the Invisible Hand' critiques the assumption that free markets self-regulate to achieve social welfare, exposing flaws like externalities, inequality, and ecological costs. It argues that regulatory frameworks and governance are essential to address market failures and balance efficiency with societal well-being. The next section on 'Invisible Cost of Land and Labour Extractions' section highlights how markets undervalue natural resources and labour, treating them as invisible inputs in production. Using global examples, it shows how unchecked extraction leads to environmental degradation, social exploitation, and undermines sustainable development. The following section on the 'Social and Time Dimensions of Market' argues that free markets overlook social identities and prioritise short-term profits over long-term sustainability. It emphasises the need for policy interventions to address systemic inequalities and integrate future-oriented, inclusive development goals. The paper then proceeds to the next section of 'Endogenous Growth Theory: The differences it made' section explains how innovation, human capital, and knowledge spillovers drive sustained economic growth beyond traditional models. It highlights both the strengths of this theory in explaining long-term development and its limitations in addressing inequality and environmental sustainability. The penultimate section on LiFE emphasises balancing market efficiency with ecological sustainability and social equity through governance. It further highlights LiFE initiative as a framework to integrate behavioural change, regulation, and collective action for sustainable development.The final section concludes with a hope that a new paradigm of development

must evolve to cater to the needs, requirements, and demands of the current complicated times.

2. Production, Packaging, and Consumption

Some years ago, a photograph went viral which drove home the point with respect to some of the challenges mentioned above. It showed an Argentinian pear, plastic packaged in Thailand which was being purchased at a supermarket in the United States. A believer of globalisation, a proponent of international trade, a global value chain expert got thrilled to bits however, the photograph was problematic at various levels not to say the least that it travelled more than 20,000 km and crossed the Pacific Ocean twice in the process. Since, the idea of enhanced efficiencies in globalisation process took root, transnational companies have found it easier to situate each part of the production process in different geographical locations which provided them cheaper rates. In this case, the land was cheaper to grow pears in one part of the world, but the labour cost of packaging them was cheaper in its antipode. The volume, scale, and sale of pears must be so high that the cost of shipping fuel got offsetted and negated.

The land,and waterresources involved here in the production, and transportation of pears in different geographical locations are tended to be seen as freely available and ready for exploitation without any sense of responsibility. The labour resources available for the packaging of pears in this example may not be free but falls far short in terms of accruing requisite labour standards and wages. The less imminent and long-term problems emanating from this situation could be manifold including lack of industrial and packaging facilities in Argentina leading to lack of value addition in their agricultural products. If packaging were carried out within Argentina, it would remove an extra layer of marginal costs caused by excessive transportation and associated resource expenses, thereby improving efficiency by trimming the marginal cost curve.Another issue could be related to lowering of soil fertility due to excessive pear farming, growing pollution levels and increased health concerns for pear farmers due to imprudent use of chemical fertilizers to keep the pear productivity high. On the other side, lower wages, stunted labour standards, and limited rights for the Thai workers to keep the packaging costs down could be the other set of problems, and not to

mention the environmental impact of movement of goods from the farm to the plate. The social, cultural, and environmental costs in this instance is immense which needs further query.

The abovecase is an example of the expansive and expensive movement of goods and the associated invisible costs associated with them. This example like so many others have become so commonplace and an accepted form of trade, commerce, and business that it would require a radical and fundamental shift in our thinking towards our understanding of economics, growth, and development.

Some of the impacts involved in the example are as follows:

Positive Impacts	**Increased Access to Fresh Produce:** The availability of Argentinian pears in the US market provides consumers with a wider selection of fresh fruits year-round, contributing to a more diverse and nutritious diet.
	Economic Benefits: Trade between countries fosters economic growth and can create employment opportunities in the exporting and importing countries, with a claim to benefiting local communities and economies.
Negative Impacts[4]	**Carbon Emissions:** Transportation of Argentinian pears from Argentina to Thailand for packaging and then to the US market involves significant carbon emissions from long-distance shipping. These emissions contribute to climate change and air pollution.
	Plastic Pollution: The plastic packaging used in Thailand may end up as waste in the US, contributing to plastic pollution if not properly managed. Improper disposal can lead to littering, environmental degradation, and harm to wildlife.
	Resource Depletion: The production of plastic packaging and the cultivation of pears require resources such as fossil fuels, water, and land. Overexploitation of these resources can lead to environmental degradation and depletion of natural ecosystems.
	Biodiversity Depletion: The practice of pear monoculture can lead to soil degradation, loss of plant and animal species, along with increased vulnerability to pests and diseases.
	Social Impacts: The environmental and social impacts of plastic pollution, such as harm to marine life and disruption of ecosystems, can have far-reaching adverse consequences globally, including in the US.
	Health Risks: If plastic packaging leaches harmful chemicals into the food, there could be potential health risks for consumers, although this depends on the type of plastic used and the specific conditions of packaging and transportation.

Source: Authors Compilation.

3. Market and the Invisible Hand

One of the many long standings and somewhat unresolved debates in economics is the relation between the government and the market. The views on this ranges from government's total macro-fiscal control on the markets to no government intervention at allas argued in the 2021 paper of Peter Self. Researchers have claimed that government's involvement in the economy ranges from being incidental to being of critical importance (Friedman, 1981). The idea of 'invisible hand' was first introduced by Adam Smith in his 1759 book The Theory of Moral Sentiments (Smith, 1759) and later in his 1776 book An Inquiry into the Nature and Causes of the Wealth of Nations(Smith, 1776), popularly known as the Wealth of Nations. A related popular term laissez-faire explains abstention by governments from interfering in the workings of the free market. Both the terms 'invisible hand' and laissez-faire in mainstream economics and in the capitalist order has come to mean that an equilibrium would be reached in the market if it is left alone to its workings through the functioning of demand and supply.

The 'invisible hand' explains two critical ideas. First, voluntary exchanges of goods and services in a free market produce widespread benefits, subject to externalities created. Second, these benefits are greater than those of a regulated, and planned exchange. It further claims that the 'invisible hand' also creates natural incentives for producers to engage in the market which generated demand for the same (Sunstein, 1999). This cycle of demand and supply creates a balance in the society thereby bringing benefits to both the producers and consumers simultaneously. Just like any idea, it is important to look into the zeitgeist of the times when they were introduced and the times during which it attained its zenith. The ideas of 'invisible hand' and laissez-faire came at a time of the First Industrial Revolution and the United States' Declaration of Independence signed in 1776, same year as the publication of the Wealth of Nations by Adam Smith (Morrison, 2012). Thus, Smith's 'invisible hand' became one of the primary justifications for an economic system of free-market capitalism, and the business climate in the United States came to be seen as developed with a general understanding that voluntary private markets are more productive than government-run economies.[5]

However, citadels of market also employ regulatory frameworks to solve some problems that market cannot (Spulber, 1989). Many industries, such as manufacturing and energy production, can generate significant pollution and environmental degradation if left unchecked. Regulatory frameworks, such as emissions standards and pollution permits, are implemented to limit and mitigate these negative externalities. For instance, the Clean Air Act in the United States sets limits on air pollutants emitted by industries, ensuring cleaner air for the public (Daniels, 2019). Similarly, MiFID II (Markets in Financial Instruments Directive II) was introduced in 2018 which is a comprehensive regulatory framework governing financial markets and investment services across the European Union (EU). It aims to enhance transparency, investor protection, and market integrity by imposing stricter requirements on financial institutions, including reporting obligations, transaction transparency, and the separation of research and trading activities (Yeoh, 2019). MiFID II seeks to address issues such as market abuse, insider trading, and conflicts of interest within the financial sector, promoting fairer and more efficient markets.This instance can be seen in our day-to-day life as well.For example, a person can drive after he/she acquires a driver's license but there is a minimum age criterion to even apply for a valid license. A similar case would be the legal drinking age of people. To put in context, if market was sole the decider, then any person of whichever age could just visit the auto dealer, and a pub/bar and could pay the requisite amount to enjoy the car, and a drink (of course not simultaneously). Thus, all societies, including citadels of market does indeed have regulatory frameworks.

The concept of 'invisible hand' has its pitfalls and challenges. A part of the problem is in its design itself, and other set of issues arises from its operationalisation on the ground. A major design problem associated with both 'invisible hand' and laissez-faire is its faith in the rational behaviour of human beings who operate in the market (Stahl, 2019). It's an oversimplification of individuals having cognitive biases, and imperfect information who operate within the market. The idea of

equilibrium and stability of the market as demand equals supply is itself open to flaws in view of markets being operationalised independent of time and social divisions. This corresponds to instances of prolonged periods of instability, bubbles, and crashes, challenging the notion of a self-stabilising system (Cahill, 2014). The failure of a market system to often self-stabilise creates imperfectly competitive system as monopolies, and oligopolies. This distorts the efficient allocation of resources. Income inequality has mostly been exacerbated in countries that are pro-free market economies. While Smith believed that individual pursuit of self-interest would benefit society as a whole, this has led to the concentration of wealth in the hands of a few, leading to increased social disparities in many cases.

Another drawback of emphasising the efficiency of a market exchange system lies in terms of a consumer deriving utility only out of the product he/she consumes (Crasswell, 1991). Man being a social animal, the level of satisfaction derived is also dependent upon other's consumption of goods and services. Other's consumption, if increases the satisfaction of a consumer leads to positive externalities, whereas it is negative externality, if the situation is reversed.

An example that demonstrates the concept of positive externalities and negative externalities in consumption can be observed in the realm of development cooperation and foreign aid can be viewed below:

Positive Externality Example	Imagine a scenario where a country of the Global North provides financial aid and technical expertise to support infrastructure development, healthcare programs, and education initiatives in a country of Global South. As a result of this assistance, the recipient country experiences improvements in healthcare outcomes, increased access to education, and enhanced infrastructure such as roads, bridges, and sanitation facilities. These positive developments not only benefit the citizens of the recipient country directly but also contribute to regional stability, economic growth, and human development. The recipient country's increased prosperity and stability can lead to positive externalities for neighbouring countries, such as improved trade relations, reduced migration pressures, and enhanced regional cooperation.

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Negative Externality Example	Conversely, when a country of Global South receives foreign aid with conditions attached, such as requirements to purchase goods or services from the donor country (of Global North) at inflated prices or to implement policies that prioritise the donor's interests over the recipient's development priorities. In this case, the foreign aid may lead to negative externalities such as economic dependency, loss of sovereignty, and exacerbation of inequality within the recipient country. Additionally, if the aid is mismanaged or siphoned off through corruption, it can undermine public trust, weaken institutions, and hinder sustainable development efforts. These negative effects can spill over to neighbouring countries and the broader international community, contributing to regional instability, conflict, and resentment towards donor nations.

Source: Authors Compilation

As a result, Smithian argument that the social satisfaction level is sum of individual satisfaction is not always an acceptable position. The same argument can be linked to the process of production as well. One's production level may lead to relative decline in other's production level, if the new technology is not used. as it often happens under situations of using new technology and generating new products and services.

The negative externalities associated with 'invisible hand' and laissez-faire are seldom addressed and in the current context the ecological losses and environmental degradation through exploitation of natural resources are a matter of grave concern. Narrow mindedness towards short term profit motives, increased efficiencies, and a market bereft of a time horizonare adding to the long-term consequences of climate change, and resource depletion (Bromley, 1986). Same set ofthought processes are aiding inadequate resource allocation to the social sectors of public healthcare, education, and environmental conservation.Other important issues related with free market is its belief in homogeneity of individuals, communities, and nations. It does not concern with the social identity of individuals and multiple identity of individuals who engage with market in different ways, depending upon their capabilities.

It is important to note that the ideas and ideals of the 'invisible hand' and free market economy became further concretised through the maturationof the new World Order (post 1945) which was established at the behest of the victors of the 2nd World War.The institutions and

international organisations like the World Bank, the International Monetary Fund, General Agreement on Tariffs and Trade, and later the World Trade Organisation stood as a strong and an influential pillar to subdue government stimulus, and subsidies not only within their Western governments but, also in the countries of the Global South.[6] The economic conditionalities had always been part of lending and foreign aid by international financial institutions, the conditionalities that focused on economic reforms in response to economic crises that affected many countries of the Global South in late 1970s and 1980s onwards have been particularly detrimental to the cause of development for the Global South (Kanbur, 2000). These are considered as the first generation of conditionalities. Structural Adjustment Programs of these institutions involving macroeconomic and political[7] conditionalities imposed on the developing world through foreign aid became so widespread that colloquially and infamously it came to be referred to as the Washington Consensus.

4. Invisible Cost of Land and Labour Extractions

Aforementioned discussion points have made it clear that the theoretical framework of a free-market system's economic interactions is assumed to be driven by factors such as self-interest (Graafland, 2009), competition (Smidt, 1971), and efficiency (Williams, 1995).The market led efficiency has been premised on the idea of extraction. As we will discuss in detail later, it is obvious that the extraction happens at two levels. Let us elaborate. In the incumbent era of economic thought, extraction of inputs started to take place in two major ways. First is the extraction of natural resources(Eckersley, 1993). These natural resources which are being extracted from the land is considered free of cost as its cost is not included in the cost of production. Second is the extraction of labour (Strauss, 2012). Wages being paid to the labourers is often less than the marginal value of their production. Thus, in a way, both land and labour have become invisible in the production processes despite being important inputs without which no production would be possible.

It would be interesting to briefly discussthe historical journey of the trend of the market with respect to our understanding of inputs and outputs.

There are three critical things related to the market which needs a clear articulation. First, some inputs are transformed into some outputs in the production process. These outputs are demanded by the consumers and thereby creating a supply-demand relationship. Secondly, land, labour, and capital are the inputs[8] utilised in the production process. Landowners would charge rent, labour would work for wage, and the capital would benefit through interest rates. In the era of classical economics (18th-19th Century), landwas a resourcebut in Neo-Classical era land was considered to be the original and inexhaustible gift of nature (Hubacek and Bergh, 2002). In modern economics, it is broadly defined to include all that nature provides, including minerals, forest products, and water and land resources. Thirdly, Neo-classical economics which started emerging around 1900s made a connection between labour and capital to produce output (land, in its expanded perspective wasconsidered free). These two extractions have been better explained by the negative externalities of ecological imbalances and environmental degradation caused due to unregulated extraction of natural resources following the spirit of free market, and social impact of the exploitation of the labour(er). These negative externalities are not considered pertinent and of value in determining the cost of production.

Unmanaged extraction of natural resources in order to achieve continuous and unlimited growth does indeed have negative consequences thereby negating achievements towards development. Some current, illustrative, prevalent, and well-established examples of this negative externalities are as follows:

Land (Extraction) Scenario	Impact on Development
The unregulated extraction of oil in the Niger Delta has led to severe environmental pollution, degradation of ecosystems, and health problems for local communities.	Despite being a major oil-producing region, the Niger Delta faces economic challenges due to environmental damage, loss of agricultural productivity, and social unrest.
Mountaintop removal coal mining, particularly in the Appalachian region of the United States, has led to environmental degradation, deforestation, and water pollution.	Despite short-term economic gains in the coal industry, the long-term consequences include habitat destruction, loss of biodiversity, and negative effects on local tourism and recreational industries.

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Unregulated coal mining in Jharia, India has resulted in underground fires, land subsidence, and air pollution due to coal seam combustion.	Despite being a significant coal-producing area, the environmental hazards have led to displacement of communities, health issues, and challenges in sustainable development.
Extraction of oil from tar sands in Alberta, Canada has resulted in extensive deforestation, habitat destruction, and water pollution.	The oil sands industry has provided economic benefits, but the environmental consequences, including carbon emissions and ecological damage, present challenges for long-term sustainable development.
While palm oil production in Sumatra and Kalimantan, Indonesia contributes to economic growth, the environmental and social costs have led to challenges in sustainable development, including soil erosion and loss of biodiversity.	While palm oil production contributes to economic growth, the environmental and social costs have led to challenges in sustainable development, including soil erosion and loss of biodiversity.
Historical mining activities in the Río Tinto Basin, Spain including extensive extraction of copper and other minerals, led to severe environmental pollution. Acid mine drainage from the mining activities has resulted in highly acidic water and soil.	While mining contributed to economic growth, the long-term consequences include soil degradation, water pollution, and negative effects on local ecosystems.
The increasing demand for lithium, a key component in batteries for electric vehicles, has led to the expansion of lithium extraction operations in the Salar de Uyuni, Bolivia. Extraction methods involve significant water usage and can impact local ecosystems.	While lithium is crucial for emerging technologies, unmanaged extraction poses environmental challenges, such as water scarcity and potential habitat disruption. Balancing economic benefits with environmental sustainability becomes crucial for long-term development.
Over-extraction of water for agriculture in the Murray-Darling Basin, Australia has resulted in reduced river flows, water scarcity, and environmental degradation.	While agriculture is a crucial economic sector, the depletion of water resources in the Murray-Darling Basin has led to ecological imbalances, threats to biodiversity, and challenges in achieving sustainable development in the region.

Source: Authors Compilation.

Similar negative externalities are prevalent in the areas of labour exploitation. Some current, illustrative, prevalent, and well-established examples of this negative externalities are as follows:

Labour (Extraction) Scenario	Impact on Development
The use of child labour in cocoa production in West Africa, including countries like Ivory Coast and Ghana, involves children working in hazardous conditions for minimal wages.	Exploitative labour practices tarnish the cocoa industry's image and contribute to ongoing poverty cycles. The prevalence of child labour has led to international calls for more ethical and sustainable sourcing practices, emphasizing that true development should prioritize fair and humane working conditions.
Zero-hour contracts, where employees are not guaranteed a minimum number of working hours, are prevalent in the United Kingdom. Workers on such contracts face income insecurity and lack certain employment benefits.	The use of zero-hour contracts contributes to precarious employment and income inequality. Workers on such contracts often struggle with financial instability, hindering their ability to contribute to societal development, such as purchasing homes or planning for the future.
Globally, many fashion brands have been implicated in the use of sweatshops, where workers endure harsh conditions, low wages, and lack of job security.[9]	Labour exploitation in the fashion industry has led to protests, ethical consumer movements, and demands for transparency. The negative impact on the industry's reputation highlights the need for sustainable and fair practices to achieve long-term development.
Agricultural laborers in some European Union countries, particularly migrant workers, may face substandard working conditions, low wages, and limited access to social protections.	Exploitative practices in agriculture contribute to the vulnerability of workers, impacting their overall well-being and social development. It also raises concerns about the sustainability of agricultural practices in the long term.
Foxconn (in China), a major supplier for companies like Apple, faced scrutiny due to poor working conditions and a series of worker suicides. Employees endured long hours, low wages, and harsh disciplinary measures.	The suicides drew attention to the human cost of labour exploitation. It pressured companies to re-evaluate their supply chain practices and led to improvements in working conditions. The incident demonstrated that persistent exploitation could harm a company's reputation and overall industry development.

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Interns in the tech industry in Silicon Valley may face long working hours, low pay, and a lack of job security, despite the industry's overall affluence.	Exploitative internships can limit access to opportunities for individuals from less privileged backgrounds, perpetuating social inequality. It also creates a culture that values profit over the well-being of workers, challenging the idea of sustainable and inclusive development.
Laborers in the coffee industry in Colombia may face precarious working conditions, low wages, and limited access to social protections.	Exploitation in coffee plantations contributes to the vulnerability of workers, hindering their ability to escape poverty. It also raises concerns about the sustainability of the coffee industry and the overall development of rural areas.
In Australia, instances of wage theft and underpayment have been documented in the retail and hospitality sectors. Workers, particularly those on casual contracts, may face violations of minimum wage laws, unpaid overtime, and inadequate compensation.	Labour exploitation in retail and hospitality contributes to income inequality, challenges workers' ability to meet their basic needs, and impedes their overall financial well-being, hindering broader social development.

Source: Authors Compilation

After having briefly explained the extraction scenario, and having cited real life examples of negative externalities associated with land and labour extractions, it would be topical to explore further the issues related with the social dimensions, and time horizon aspects of the market along with their origins and way forward.

5. Social and Time Dimensions of Market

The social dimension and the time dimension of the 'invisible hand' and laissez-faire needs a greater focus here. Free-market system does not concern with the social characteristics or identities of individuals. They are treated faceless. Market considers individuals as autonomous agents making rational choices to maximise their own well-being. The focus is on the actions of individuals rather than collective characteristics associated with social identities. As the functioning of the free market is based on the principles of demand and supply, competition, and price mechanisms, making transactions reliant with profit making. In such scenario economic

agents are expected to respond to market signals without regards to the social identities and concerns of buyers or sellers.

Free market economic system is also based on the premise that participants are treated equally in economic transactions. Thus, sellers are expected to compete based on the quality and price of their goods or services, and buyers are expected to make choices based on their preferences and needs, without discrimination based on social identities and social considerations. Moreover, competition is seen as a mechanism for sorting individuals based on merit and this meritocratic system rewards hard work and innovation, irrespective of social identities, the same identities which may aid or hinder certain people and groups (Farmer, 2003). Historical disadvantages, systemic biases, unequal access to opportunities and resources play a limited role in the free market economy.

In order to address issues related to social identities and promoting greater equity require interventions beyond the market. Government policies, regulations, and social programs are needed to counteract systemic inequalities and ensure a more inclusive economic environment.

The lack of time dimension of the 'invisible hand' captures a perception that the primary focus within a free-market systemis on generating immediate profit, potentially at the expense of longer-term considerations. The pressure to show immediate returns to shareholders, meet quarterly financial targets, and outperform competitors contributes to decisions that prioritises short-term gains at the cost of future losses mostly in social areas and ecological aspects. Market dynamics creates a pressure to prioritise actions that boost short-term profits, such as cost-cutting or focusing on projects with quick returns, even if the long-term consequences are bad for the society in general. This focus on immediate returns and single-minded focus towards profit may lead to decisions that sacrifice long-term investments in research and development, employee training, or sustainability initiatives (Foer, 2015). On similar lines, businesses tend to neglect investments in sustainable practices or social responsibility in favour of actions that yield quicker financial returns.

Like social dimensions could be catered to by the market upon the infusion of governmental policy and regulations, the absence or

inadequacy of regulations addressing long-term concerns, such as environmental protection or employee well-being, can contribute to a scenario where businesses prioritise short-term gains over broader societal or environmental considerations.

The challenges and problems of 'invisible hand' and laissez-faire are quite acute for domestic markets anyway however, these challenges when seen from the lens of the Global South appear even more complex (Aksakal, 2023). The Global South have experienced and continue to experience structural inequalities including unequal access to resources, and technology. The 'invisible hand' assumes a level playing field, but in reality, these imbalances have hindered fair competition, and development of the Global South. Both concepts have instituted a system of dependency and unequal exchanges for the Global South where in the value addition to natural resources extracted from developing countries mostly take place in developed parts of the world having requisite technologies and the relevant human resources.

Multinational corporations have added to the problem by exploiting weaker economies, extracting resources without adequately compensating local populations or contributing to sustainable development (Monshipouri, Welch,and Kennedy, 2003).The Argentinian pear example being packaged in Thailand captures the situation succinctly. The history and legacy of subjugation of the Global South in form of colonialism and imperialism added with the plunder of natural resources further complicates the picture. The Global South requires targeted developmental policies to address issues such as poverty, healthcare, and education. Sole reliance on the 'invisible hand' is not sufficient to address these broader social goals.

6. Endogenous Growth Theory: The Differences It Made

The rapid economic growth experienced by countries like South Korea, Taiwan, Hong Kong, and Singapore in the latter half of the 20th century challenged traditional neoclassical growth theories (Li, 2003). These economies achieved sustained and rapid growth rates that surpassed those predicted by traditional models, leading researchers to question the assumptions underlying existing growth theories and explore alternative

explanations. The traditional neoclassical growth models, such as the Solow growth model, struggled to fully account for observed patterns of economic growth, particularly the sustained and accelerating growth experienced by the Asian Tigers over extended periods (Ozdemir, 2017; and Fogel, 2008). The augmented Solow model while trying to incorporate human capital accumulation shows that holding population growth and capital accumulation constant, countries converge at about the rate the augmented Solow model predicts. While partly offsetting the shortcomings, the results also depend on a number of unrealistic assumptions like constant population growth and constant capital accumulation (Mankiw, Romer & Weil, 1992).The success of these countries that pursued strategies emphasising investments in education, research, and technology further challenged conventional wisdom regarding economic development. The empirical evidence suggested that factors beyond exogenous technological progress and capital accumulation were at play in driving long-term growth (Krueger, 1995). This was also the time of increasing interconnectedness of the global economy and advancement in the information and communication technologies space which facilitated the rapid spread of ideas, knowledge, and innovation. This globalisation of economic activity highlighted the role of knowledge and innovation as drivers of competitiveness and economic growth.

Entry of the Endogenous Growth Theory[10] to the growth literature aided the understanding that accumulation of physical capital is not the only source of growth of an economy. In endogenous growth theory, the accumulation of human capital, which refers to knowledge, skills, and education of the workforce, is considered a crucial determinant of economic growth. Investments in education, training, and research and development are viewed as drivers of sustained productivity improvements. Innovation and technological advancements are seen as endogenously arising from factors such as research and development, learning by doing, and knowledge spill overs. The theory further emphasises positive externalities and knowledge spill overs as key drivers of growth. As one entity invests in research or education, the benefits extend beyond that entity, positively affecting others in the

economy. This creates a feedback loop where knowledge creation and dissemination contribute to sustained growth.

While no single event can be attributed to the emergence of Endogenous Growth Theory, the convergence of above mentioned historical, geopolitical, and economic factors created fertile ground for the development of new theoretical approaches that emphasised the endogenous generation and accumulation of knowledge, innovation, and human capital as central drivers of economic growth.

The Endogenous Growth Theory is based on the following assumptions

- **Knowledge and Innovation:** Endogenous Growth Theory assumes that knowledge and innovation play a central role in driving economic growth. Unlike in traditional neoclassical growth theory, where technological progress is often treated as exogenous, endogenous growth theory emphasizes the importance of investment in research and development (R&D), human capital, and learning-by-doing in generating technological advancements and productivity growth.In essence, endogenous growth theory provides a framework for understanding how investments in human capital, knowledge, and technology can lead to sustained economic growth by incorporating increasing returns to scale and viewing these factors as endogenous to the economic system.
- **Increasing Returns to Scale:** The theory assumes the presence of increasing returns to scale in certain economic activities, particularly those related to knowledge creation and innovation. This means that as the scale of production increases, the average cost, the average fixed cost to be specific, per unit decreases, leading to positive feedback loops and self-reinforcing growth dynamics.
- **Externalities:** Endogenous Growth Theory recognises the existence of positive externalities associated with knowledge spillovers and technological innovation. These externalities occur when the benefits of innovation extend beyond the firms or individuals directly involved in the innovation process,

leading to potential underinvestment in R&D by private firms due to their inability to capture the full social benefits.

- **Human Capital Accumulation:** The theory emphasises the role of human capital accumulation, including education, training, and skill development, as a driver of long-term economic growth. Investments in human capital enhance labour productivity, stimulate technological innovation, and contribute to overall economic development.
- **Dynamic Feedback Effects:** Endogenous Growth Theory considers the dynamic feedback effects between different factors of production, such as capital accumulation, technological progress, and human capital formation. For example, technological progress can increase the productivity of both physical and human capital, leading to further investment in these inputs and driving sustained economic growth.
- **Market Imperfections:** The theory acknowledges the presence of market imperfections, such as information asymmetries, barriers to entry, and incomplete property rights, which can hinder the efficient allocation of resources and impede innovation. Policies aimed at addressing these imperfections, such as intellectual property rights protection and government support for R&D, are often considered essential for fostering endogenous growth.

The Endogenous Growth Theory tends to downplay the importance of other factors, such as natural resources, institutions, cultural factors, and external shocks, in influencing economic growth. While knowledge and innovation are undoubtedly important, a more comprehensive understanding of economic growth requires considering a broader range of determinants. Concerns regarding the sustainability of growth driven primarily by knowledge and innovation is not addressed by this theory. Unchecked economic growth may lead to environmental degradation, resource depletion, and social inequalities and Endogenous Growth Theory does not adequately address these sustainability challenges. The theory suggests that investments in human capital and innovation

can lead to long-term economic growth and higher living standards, however, critics argue that the benefits of growth may not be evenly distributed across society, leading to widening income inequality and social disparities. Thus, Endogenous Growth Theory has contributed to our understanding of the role of knowledge, innovation, and human capital in driving economic growth, it is not without its limitations and criticisms.

7. LiFE – Lifestyle for Economy

We have explained on the issues of market and its negative effects on development in the realm of ecology, and social dimensions. India, during its G20 Presidency in 2023, proposed Lifestyle for Environment (LiFE) which entails the transformation of individual and societal behaviour to shift away from unsustainable consumption and production(Chaturvedi, Prabhu, and Saha, 2025). Though, LiFE does not aim to radically alter the market and our understanding of the market but it aspires to work within the confines of the market with the focus to reduce the ecological, and social impacts of 'invisible hand' and laissez-faire.

The four broad dimensions of LiFE are in the domain of

- promoting sustainable consumption and production in which every citizen and stakeholder contributes to the green transition effort,
- examining the technologies, re-skilling initiatives, financial support, and other efforts required to reduce the burden on developing and communities,
- exploring integrity and ethics in banking, finance, and insurance to make the economic system more robust, just, and inclusive, and
- investigating socio-economy based growth measurement models.

Under the present circumstances, it is quite obvious that market mechanism alone cannot take care of the four broad dimensions of LiFE mentioned above. We require a balanced and careful mixture of both visible and invisible hands in bringing about development for all in the

real sense of the term. Economic mechanisms of market cannot tackle the non-economic mechanism that control not only nature but also the political, social, and cultural wellbeing of communities. Thus, we have to start highlighting a conceptual linkage between man and nature to ensure one facilitating the existence of the other in the long-term albeit starting right now.

8. Conclusion

Physical, natural, and human resources are fundamental pillars of economic growth, each playing a distinct yet interconnected role in fostering productivity and development. These aspects have been discussed in the sections above. Physical resources, such as infrastructure, machinery, raw materials, and energy, form the tangible foundation of economic activities. They enable the production of goods and services, improve efficiency through technological advancements, and connect markets via transportation and communication networks. Human resources, on the other hand, encompass the skills, knowledge, creativity, and labour of a workforce. Educated and trained individuals drive innovation, adapt to technological changes, and enhance organisational performance. Together, these resources create synergies: robust infrastructure supports human productivity, while a skilled workforce maximises the utility of physical assets. For economies to thrive, investments in both domains are critical—modernising infrastructure and expanding access to education and healthcare ensure sustained growth and competitiveness in a globalised world.

However, the exploitation of physical and human resources must be balanced with mindful stewardship to address their limitations and environmental consequences. Physical resources, particularly non-renewable ones like fossil fuels and minerals, are finite, and over-extraction can lead to depletion, supply chain disruptions, and geopolitical tensions (Bond, 2025). Similarly, environmental degradation—such as pollution, deforestation, and carbon emissions—poses long-term risks to ecosystems and human well-being. Even human resources face constraints, including labour shortages, skill gaps, and inequitable access to opportunities, which can hinder inclusive growth. Sustainable practices, such as transitioning to renewable energy, promoting circular

economies, and investing in green technologies, are essential to mitigate these challenges (Soderholm, 2020). Equally vital is fostering equitable education and fair labour practices to ensure human potential is nurtured without exploitation. By prioritising efficiency, innovation, and ethical resource management, societies can pursue economic growth while safeguarding ecological balance and intergenerational equity.

Therefore, it may be argued that market and the control of the market with respect to its organisational and operational connect has put a stronghold over our policymaking thought processes. This has led to the present situation where inequality is increasing where people with capital are increasingly getting richer and labour is stagnant. The costs of production which were ignored is now staring us in our faces in form of social unrest and the pillage of natural resources has led to ecological imbalances. In fact, the poor and the countries of the Global South are paying an even higher price in the market of 'invisible hand' and laissez-faire. We also observe that the economic and development literature has evolved from growth led development to capacity led development, the understanding of market must also evolve to the understanding of governance where market should not be the sole determinant of development. Governmental intervention through policies and regulations are the requirement if we want our development to be sustainable. Thus, a new paradigm of development must evolve to cater to the needs, requirements, and demands of the current complicated times.

Endnotes

[1] There is a tendency for countries to mimic the economic policies and development strategies of more economically successful nations. As market economies in the Global North have achieved significant prosperity, countries in the Global South may emulate their policies in the hopes of replicating their success (Stiglitz, 2002).

[2] In the US, market-based economy has historically been more dominant, with a preference for deregulation, limited government intervention, and emphasis on individual responsibility. In the EU, policies have been more prevalent with a greater emphasis on social welfare programs, environmental protection, and regulation of markets to ensure competition and stability

(Rhodes, 2001). However, both the US and the EU have implemented a mix of market and neoliberal policies, albeit to varying degrees, reflecting unique historical, cultural, and political and economic priorities (Prasad, 2006).

[3] Overall, the extent of market-oriented reforms in the Global South is influenced by a complex interplay of domestic political dynamics, international pressures, and local socioeconomic conditions. While some countries have embraced neoliberal policies more enthusiastically, others have pursued more mixed approaches or alternative development strategies that prioritize state intervention and social welfare (Eberhard and Godinho, 2017).

[4] To mitigate these negative externalities, efforts can be made to promote sustainable practices throughout the supply chain, including using eco-friendly packaging materials, optimizing transportation routes to reduce emissions, improving waste management systems, and raising awareness among consumers about the environmental and social impacts of their purchasing decisions. Additionally, governments can implement regulations and policies to incentivise sustainable production and consumption patterns and hold businesses accountable for their environmental and social responsibilities (Stevens, 2010).

[5] It would not be right to claim that the US follows the free-market system all the time. After the economic depression of the 1930s, the Keynesian economics of government stimulus to shore up businesses and Keynesian fiscal policies towards welfarism are a case in point (Sweezy, 1972). Also, the bailout packages offered to faltering banks after the 2008 economic crises is another example of government intervention in the US economy (Levitin, 2010). However, both these examples came about in times of economic strife and the free-market understanding was under stress. Many researchers claimed that after all, government intervention was required to revive the free market economy.

[6] The challenges, and frustration of the Global South towards their own development vis-à-vis the Global North, led academics and policy makers from the Southern countries to present an alternative view of growth and development, and counter the core assumptions and principles of classical economics. In fact, the idea of governance (not in exact terms) also came from the Global South where it was understood that a proper balance needs to be maintained between the 'invisible hand' in form of market and the 'visible hand' in form of government support for the country to develop (Chakravarti, 2012).

[7] 1990s saw the emergence of a second generation of political conditionalities connected to democracy, the rule of law, good governance, human rights, and the continuing promotion of the market economy (Daniels and Trebilcock, 2004).

[8] Institution is considered as an input by some observers as well, and was added later as one of the inputs required to transform them into outputs (Searle, 2005).

[9] The Rana Plaza factory collapse is a tragic example of labour exploitation in the garment industry. Workers in the building faced unsafe working conditions, low wages, and pressure to meet production quotas. The collapse led to the loss of over 1,100 lives and highlighted the severe consequences of exploiting labour for profit. It exposed the lack of proper safety standards and workers' rights in pursuit of cost-cutting, damaging the reputation of the garment industry in Bangladesh and raising concerns about ethical sourcing (Prentice, 2019).

[10] Prominent contributors to Endogenous Growth Theory include Paul Romer and Robert Lucas, who developed models that highlight the role of ideas and human capital in shaping long-term economic growth. The theory has become an influential framework in the study of economic development, emphasising the importance of internal dynamics, knowledge creation, and innovation in sustaining economic prosperity (Chandra, 2022).

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