

# Critical and analytical thinking for searching the connections between the economic crisis, rise of neo-liberalism and the hedonistic consumerism

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## Abstract

This study aims to establish the connections between the economic crisis, rise of neoliberalism and the hedonistic consumerism in order to understand the evolution of world financial crisis by using critical and analytical thinking methods.

In the U.S., as in Europe, there was a change of economic policy paradigm by the mid-1970s, this change occurred as the abandonment of the post-World War II Keynesian policy paradigm and its replacement with neoliberal policies. Hedonistic consumerism, the highly wasteful and discriminatory pattern of consumption predominates in capitalist models. The high levels of consumption fostered by hedonistic consumerism lead to the economic crisis. This explains the most important common element of the financial crisis lying in the nature of the credit cycle.

**Key words:** economic crisis, neoliberalism, hedonistic consumerism, critical and analytical thinking

## 1. Introduction

In this article, it is argued that both Fordism and post-Fordism have relied on consumerism to support consumption. By the 1970s the economic policy paradigm undergone a change as the dominating Keynesian policy for the post World War II began to disappear replacing itself with the neoliberal policies. As it is put forward and very well known, neo-liberalism is a theory that human well-being can best be advanced by the maximization of entrepreneurial freedoms which characterized by individual liberty, private property rights, unimpeded markets and in turn free trade. Taking into consideration that the altering process of the Keynesian policies into neoliberal policies paved the way to the transformation process in the consumerism.

Meanwhile consumerism has been the core of both Fordism and post-Fordism, it has also evolved into hedonistic consumerism parallel to the changes in the policy paradigm following the period post-World War II. The high levels of consumption encouraged by hedonistic consumerism lead to the economic crisis as this type of consumerism is the common denominator of the financial crisis in terms lying in the nature of the credit cycle.

In this context, the paper will reveal the neoliberalism and hedonistic consumerism concepts deeply in the second part. Then the results section will be composed of the connections between economic crisis, rise of neoliberalism and the hedonistic consumerism whereas the interconnections among them will be placed at the discussion section. The conclusion will sum up the theory and supporting ideas bring forward in the paper.

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## 2. Materials and Method

The objective of this part is to present a theoretical framework for analysis for the paper, a review of the literature on the analysis of the rise of neoliberal policy and hedonistic consumerism which will guide the theory put forward in the paper.

The study is firstly based on understanding the neoliberalism and hedonistic consumerism concepts by reviewing the literature and their appearance in the world. The critical thinking has enabled to judge the connections between economic crisis, rise of neoliberalism and the hedonistic consumerism and the interconnections among them.

The theory part is constructed via reviewing the literature on the analysis of the issue and by this way describes the concept of neoliberalism and hedonistic consumerism. Furthermore it also provides a base for the understanding of the connections between the rise of the neoliberalism as the new policy paradigm as well as the hedonistic consumerism as the new type of consumerism shaped in accordance to the change in the policy paradigm. It is also important to note the crucial importance of the literature review as being a building block for the analysis and critical thinking of the interconnections of the neoliberalism, hedonistic consumerism and the financial crisis as the credit cycle lies beneath the crisis which in turn triggered by the hedonistic consumerism following the change in policies

### 2.1. Theory

In the U.S., as in Europe, there was a change of economic policy paradigm by the mid-1970s that saw the abandonment of the post-World War II Keynesian policy paradigm and its replacement with a neoliberal growth paradigm [1]. The overall context for the ascendancy of neoliberalism was also provided by the crisis of Fordism. By the time of Fordism, cultural and structural elements have led to a situation in which consumption, fostered by induced wants, far exceeds levels of basic need and tends to be monopolized by the wealthiest, both among and within nation. In post-Fordism, this strategy has focused on the expansion of consumption for the wealthy, while marginalizing the poor. The post-Fordist accumulation regime has drifted toward hedonistic consumerism [2] in terms of a mix of highly unequal and burgeoning consumption.

Neoliberalism is a theory of political economic doctrine [3] proposing that human well-being can best be advanced by the maximization of entrepreneurial freedoms within an institutional framework characterized by private property rights, individual liberty, unencumbered markets and free trade. Neoliberalism is radically opposed to communism, socialism and all forms of active government intervention beyond that required to secure private property arrangements, market institutions and entrepreneurial activity [4].

Three important developments, have risen which together promoted a series of long economic expansions but also the series of an eventual systemic crisis with the introduction of neoliberalism in the world. These three developments are first of all the growing inequality, within the capitalist process between wages and profits and within society as a whole among households; secondly, a financial sector that became increasingly absorbed in speculative and

risky activities and thirdly a series of large asset bubbles. This reflects the fact that the global economic crisis is a crisis of neoliberalism which has been the guiding global economic ideology for the recent years [5].

Inequities in income in many countries, resulting from neoliberal policies, meant that consumer demand could not keep up with production capacity. Consequently profits from investing in production declined and economic growth slowed. Consumer demands were increased through bank credit to consumers.

This shift to neoliberal policy created a new economic model that gradually cannibalized the income and demand generation process in the euro zone. However, the effects of this cannibalization process [6] were whitewashed by positive temporary developments including the launch of the euro in 1999. The credit bubble has burst; the combined effects of the turn to neoliberalism and the flawed design of the euro have created a deep structural crisis that will persist absent change of policy direction and profound reform.

Contending that consumption and lifestyle have replaced production and work as the pivotal facets of sociocultural life, postmodernists hold that neoliberalism's highly differentiated niche markets decenter and localize consumption, subvert rigid, conformist, worker-bee selves and put an end to class politics [7].

Fordist production models entered a phase of decline [8] in the 1970's, new arrangements began to emerge both in the production and consumption spheres. While consumerism has been at the root of both Fordism and post-Fordism and as such was incorporated in the modes of regulation of both, it has undergone an important transformation since the early 1970s as consumption became increasingly self-referencing, more segmented, and unequal. Accordingly consumerism was, in short, transformed into hedonistic consumerism [2]. Hedonistic consumerism, the highly wasteful and discriminatory pattern of consumption that predominates in current capitalist models, is the latest evolution in the forms of modern capitalism. Hedonistic consumerism is one of the key factors underpinning the post-Fordist mode of consumption.

Moreover, hedonistic consumerism refers to the satisfaction of wants, desires, fantasies other than needs. This makes it more physiological and pleasure oriented. New modes of production with increasing transfer of know-how's as well as daily evolving new technologies and information flows made the economy more productive which in turn caused a transition from consumption to consumerism. This productive economy in turn demands from people that they make the consumption their way of life, that they convert the purchase and use of goods into rituals, that they seek their spiritual satisfaction, their ego satisfaction in consumption [2, 8]. They need things consumed, burned up, replaced and discarded at an ever-accelerating rate. The consumption turning into hedonistic consumerism can be more clearly expressed as a psychological process; a self-replicating cycle of dream, desire, acquisition and disillusionment. It begins with the search of an "original" product which becomes than the object for the quest for psychological satisfaction of the desire. The last step of the cycle, disillusionment sets in after the consumption and therefore new products must be found and consumed [2].

Considering the fact that current economic practice focuses on fostering self-referencing consumerism and to support this day-by-day increasingly sophisticated marketing techniques and advertisement efforts take a crucial place. For example, as proposed in media and press, Nike, notorious for having its shoes made by Asian teenagers, describes itself to western teenagers as a bearer of "revolution". Apple decorates its corporate facades with images of avant-garde celebrities. Benetton has managed to equate its brand with the fight against racism. Pepsi owns youth rebellion, the Body Shop owns compassion and Reebok owns nonconformity whereas MTV underground credibility. The clever advertising techniques used by large corporations serve not to manipulate consumers, so that they would buy private goods and services they do not relatively need or want; instead serve to a desire on the part of consumers for emulation and differentiation, driving them to create visible distinctions between large groups and classes, and, within such groups, more subtle distinctions of individuality.

In addition to this, consumption has become increasingly more self-referencing as marketing strategies divide the consumer base in ever more sophisticated target markets organized by mixes of gender, income, status, age and ethnic characteristics. Hence marginalizing or alienating the others that do not meet the characteristics [8].

Consequently, the high levels of consumption fostered by hedonistic consumerism lead to an economic crisis. The relevance of the financial sector increased in the creation of wealth constituting the material premises of the emergence of hedonistic consumerism which are closely connected with the continuous unbalancing of the savings/consumption ratio and with the increased reliance on private debt to sustain private consumption [2]. These features exist along with the continued pressure to consume, the increasing percentages of expenditures.

With the depression in median wage growth and also growing inequalities in wealth and incomes, the dynamic demand tried to be provided by the expansion of credit, supported by low interest-rate policies; which in turn resulted in debt-based spending to grow at a faster rate than incomes and wages and as finally turned out to be first as credit crunch in 2007 and then deepened into the banking crisis in 2008 [9].

### **3. Results**

The crisis is related to profound changes in production relations, the rise of new social forces, and the reconstitution of the post-war world order in the 1970s. These changes subsequently gave rise to the establishment of a post-Fordist regime of accumulation and to the emergence of the financial sector as the primary engine for capitalist accumulation i.e. neoliberal and finance-driven regime of accumulation.

The progress of post-Fordism, the flexibilization of wage and work relations, the reduction of industrial wages and employment opportunities, the increased relevance of the financial sector in the creation of wealth and in determining who the high income earners are, constitute the material premises of the emergence of hedonistic consumerism. From them follow the segmentation of the earning capacities of the population, with the emergence of a progressively more unequal distribution of income that has favored the richest. These patterns are closely connected with the

continuous unbalancing of the savings/consumption ratio and with the increased reliance on private debt to sustain private consumption.

#### **4. Discussion**

The recent financial crisis, which began with the bursting of the U.S. housing bubble in 2007 is inherently related to profound changes in production relations, the rise of new social forces and the reconstitution of the post-war world order [1] in the 1970s. These changes subsequently gave rise to the establishment of a post-Fordist regime of accumulation and to the emergence of the financial sector as the primary engine for capitalist accumulation. In addition, the restructuring propelled the rollback and dismantlement of the Keynesian welfare state and corporate arrangements, which went hand in hand with the weakening and disciplining of organized labour and the collapse of the Bretton Woods system.

The period after the First World War particularly the world crisis of 1930s to the early 1970s was marked by the dominance of national capitalist economies characterized by a significant degree of state intervention and an international economy with strong constraints on trade and capital flows called as Keynesian [1,6] .

In the wake of World War II, neoliberalism had no place in the mainstream political debate. The main economics for everyone else was Keynesian, a social/Christian democrat or some shade of Marxist. The Bretton Woods system emerged as the underlying foundation of the post-war liberal global order with fixed exchange rates, a U.S. dollar pegged to gold and as the most-favoured-nation treatment in international trade. In the mid-1960s, the crisis of Fordism began to call the foundations of the system seriously into question [9] .

During 1980s the process of capital accumulation decelerated and over production with relatively weak demand emerged. Neoliberalism triggered by overproduction mainly focused on “liberating the market” via accelerated privatization, deregulation and trade liberalization in a way to open up new geographies for spatial fix [10,11].

The neoliberal culture, operates precisely through the multiplication of different products, services and spectacles targeted at specific audiences. Consumer and media industries are becoming more differentiated and are segmenting their customers and audiences into more categories. In many cases, this involves the simulation of minor differences of fashion and style as significant, but it also involves a proliferation of a more highly differentiated culture and society in terms of an ever expanding variety and diversity of products and services [12].

These accelerated product design and more flexible production equipment and labour made it possible to customize the commodities to an unprecedented extent, subdividing the large and uniform product runs of industrial mass production into ever-smaller series of differentiated sub-products [2, 8, 12], in an effort to get closer to the characteristic preferences of potential customers in other words involving the desubjectivization of the old and the resubjectivization of the new that is compatible with the individualistic, fragmented world view required by neoliberalism [3,4]. At the same time, it enabled and encouraged consumers to shape that

function, by developing or paying more attention to their individual wants, on top of the common needs served by standardized products.

Besides consumption rates increase and the life span of products or trends tend to be ever shorter. The impulse to consume is diffused and aired through the ever more pervasive media to all segments of society, becoming an important social signifier. A grave shortcoming of hedonistic consumerism appears to be its self-referencing nature, which makes it insular and self-justifying. The meaning and nature of consumption changed with the emergence of an increasingly hegemonic discourse that equated individual expression with material possession. Consumption fulfils more than the simple needs of the consumer. Certain goods have highly symbolic value in a way that possession and/or use of certain objects add to their use value a powerful status-defining element. These values are socially defined therefore subject to constant evolution. Creation of new images means new consumption needs [2, 12]. As the “new” changes day-by-day, season to season, every year. Hence it accelerates the cycles of obsolescence, hence accelerates the consumption.

Whether the reason for consumption is emulation, addiction, self-expression, or a mix of the three, the society looks increasingly to consumer goods as the accepted form of expressing “individual” choice, determining status, showcasing wealth, and satisfying psychological compulsions. Hence the vast variety of alternative possibilities of consumption provides a mechanism that allows people to do an act of purchase—concluding, as it often does, a lengthy period of introspective exploration of one’s very personal preferences—as an act of self-identification and self-presentation, one that sets the individual apart from some social groups while uniting him or her with others. The ideas of change and progress as well as pleasure were put in the service of the fight against the existing structured coherence and subjectivities. Thus a new structure of sensibility, begun to emerge which meant destruction of the given and creation of the new. The new was going to be the pleasure oriented self-centred narcissistic individual; hence hedonistic consumer [2, 8].

Accordingly, this consumer trends and diversities of products and services paved the way to the high levels of consumption fostered by hedonistic consumerism leading to the inevitable economic crisis. From that view, it imposes an ever increasing strain on the use of capital around the world thus bringing the economic crisis. Post-Fordist economic trends have increasingly relied on consumerism while driving an increasingly larger relative income gap between the elite and the rest of the world consumers.

## **Conclusions**

There was a change of economic policy paradigm by the mid-1970s, shifting from the post-World War II Keynesian policy paradigm to the neoliberal policies. Neo-liberalism is a theory that human well-being can best be advanced by the maximization of entrepreneurial freedoms which characterized by private property rights, individual liberty, unencumbered markets and free trade.

While consumerism has been at the base of both Fordism and post-Fordism, it has undergone an important transformation since the early 1970s and consumerism transformed into hedonistic consumerism. Hedonistic consumerism, the highly wasteful and discriminatory pattern of consumption predominates in current capitalist models. The savings/consumption ratio is highly unbalanced and reliance on private debt to sustain private consumption has increased. Hence the high levels of consumption fostered by hedonistic consumerism lead to the economic crisis which in turn explains the most important common element of the financial crisis lying in the nature of the credit cycle.

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