Keynesian and Neoliberal Welfare States: The Impact on Marginalized Groups
Abstract

A welfare state describes the intrusions made by the government of the state with the intention of moderating the economic market through promoting the well-being of individuals, families, and groups. Some welfare states emphasize equality, empathy, and justice through the public services funded and regulated by the state government. Due to globalization and the subsequent shift in the economy, it became increasingly necessary that Canada and other OECD welfare states consider and discuss the economic aspects of social policies (Westhues, Wharf, 2012, p. 5). Social policies dictate which issues are priorities to the welfare state and how the majority of the population believes those issues should be dealt with. Social policies are ever changing (Westhues, Wharf, 2012, p. 3) and are directly influenced, for better or for worse, by the economic and social ideologies held by the government in power at any given time.

This paper will discuss two social economic ideologies: Keynesianism and Neoliberalism. In order to provide a thorough examination of these philosophies, the historical contexts will be discussed as well as the influence over social policies. Further, the implications that Keynesianism and Neoliberalism have on marginalized individuals, families, and groups will be considered. This document will largely reflect a Canadian perspective in its policy examples and historical contexts.

An Introduction to Keynesianism

During World War Two (WWII), Canadian citizens began working in professions that contributed to the war efforts. Their contributions simultaneously assisted in the recovery of the economy, which was essential after the Great Depression experienced throughout the 1930s (Lightman, 2003, p. 36). However, problems arose following the
end of WWII when Canadian soldiers began to return to their homeland. Many of these soldiers landed in Canada to become unemployed; a large majority of soldiers also struggled to effectively cope with the traumas witnessed and survived throughout combat. In order to support the individual, familial and community needs that ascended as a result of WWII, the Canadian Government recognized that implementing social programs was necessary to meet the needs of Canadian citizens (Chappell, 2014, p. 72). The cost of these social programs was not a concern to Canadians as the society worked collaboratively to build a better future for the collective group (Lightman, 2003, p. 36). The presented empathetic societal attitudes and the creation of new social policies in the 1940s was a result of a new political economic ideology termed Keynesianism.

John Maynard Keynes founded Keynesianism. He believed that the private market could not be sustained independently or privately. Consequently, the government had a regulatory role in the maintenance of the economy (Lightman, 2003, p. 40). According to this ideology, the government should stabilize and preserve the economy through proving goods and services to the public at lower costs than the private market exclusive of profit motives. Further, universal social policies and systems assisted in ensuring fairness among all citizens. The funding for these social programs theoretically came from the taxation of working paychecks; taxes were then to be redistributed into public support programs (Naiman, 2012, p. 193). This model supposedly avoided inflation by replacing the previous ideology, which favoured creating more jobs in an effort to stimulate the economy short term (Lightman, 2003, p. 40). Rather than creating new jobs, Keynesianism suggested that the government supplies public support programs that allow marginalized individuals to fully and equitably participate in the market
economic and, subsequently, stimulate the market through their financial participation in the market. Some social programs that were introduced under the Keynesianism philosophy include: the Unemployment Insurance Program in 1941, Family Allowances in 1945, and the Old Age Security Program in 1949 (Lightman, 2003, p. 39).

**The Shift Away From Keynesianism**

Keynesianism prevailed in Canadian social and economic policy through to the 1970s. However, the postwar assumption between capital and labour workers eventually expired; oil became increasingly expensive, which resulted in Canada’s economic wealth to cease growth. When this growth was halted, it became obvious that not every Canadian could reap the benefits of the market. While oil prices continued to rise throughout the 1970s, all goods and services that required oil also increased in expense dramatically. The increase in cost decreased the demand for goods and services, which in turn created high unemployment rates because less labour was needed to meet the reduced public demand for commodities. Due to the high unemployment rates, the Canadian Government was spending more money to support its citizens, particularly through the Unemployment Insurance Program that was introduced in 1941 through Keynesianism. The result of increased social spending through support programs resulted in large Federal deficits (Lightman, 2003, p. 38).

As deficits increased, Keynesianism ideals were devalued and replaced with monetary policies and Neoliberalism values. The transition in political economic ideologies had direct impacts on Canadian social policies. For example, the Bank of Canada acquired the autonomy to increase and decrease interest rates as they saw fit (Lightman, 2003, 42). A smaller ruling class, new technologies, advanced globalization,
and merging of services further characterized the beginning of the Neoliberal political economic era (Naiman, 2012, p. 195). The impacts of this policy on individuals, families and groups, particularly those whom were already marginalized, will be further examined in the succeeding the paragraphs.

**Neoliberalism and Changes to the Welfare State**

Presently, Neoliberalism is considered to be the primary influence on social policy (Westhues, Wharf, 2012, p. 11). This political economic ideology values the preservation of the free market, privatization of goods and services, minimizing labour costs through contract work, and the promotion of public-private sponsorship (i.e. roads and buildings). This means that the conversion to Neoliberalism was characterized by the creation of more part-time and contractual jobs for the working class; in addition, the market became more privatized, which further resulted in increased prices for goods and services. In accordance, Neoliberal ideology disputes Keynesianism and suggests that government intervention in the private market should not occur as it hinders the market’s ability to compete internationally; it is suggested that the wealth present in the elite classes will naturally disperse to the lower classes when economic growth occurs (Chappell, 2012, p. 20). Due to this belief, social programs were cut to save money and significantly less money was taxed and redistributed to the lower classes. Fewer regulations and a smaller government are valued highly as well (Westheus, Wharf, 2012, p. 12). These values result in a few elite members of society making decisions for the entire population while concurrently silencing the voices of the majority of citizens. It is likely that social policies and economic decisions made in these political environments will only benefit citizens in positions of power. Further, political and economic decisions
made at this time prioritized decreasing the Federal deficits through drastically decreasing social spending and other debt reduction strategies (Chappell, 2012, p. 92).

This ideology and its money saving techniques influenced social policies considerably. For example, the Canadian income security system was damaged in 1985 when the Canadian Government reduced social programming that provided income security to impoverished Canadians (Chappell, 2012, p. 93). The year of 1989 saw the introduction of claw backs into the social welfare programs. Claw backs allowed the government to demand that citizens repay money acquired through the welfare system. The Old Age Security program is an example of a program with claw backs. The government continued this trend and cancelled the Family Allowance Program, which was introduced under Keynesianism. Many changes were made to the Unemployment Insurance Program; one major change was the Federal government cut funding to the insurance program. This meant that workers and employers had to save their own money for personal insurance in case of emergency (Chappell, 2012, p. 94).

**Keynesianism, Poverty and Marginalized Groups**

Under Keynesianism, taxes were increased for both individuals and corporations (Westheus, Wharf, 2012, p. 14). This was advantageous for individuals living in poverty and marginalized individuals as taxation from corporations allowed for a substantial amount of money to be redistributed among disadvantaged groups. Further, intervention by the government provided public supports to individuals, families and groups that may not have had otherwise. These supports provided immediate help, long-term support and a social safety net. Government intervention in the market and social programming allowed underprivileged citizens a theoretical equal opportunity to function at a “normal”
level in the society. Equity and the ability to function in the market provided autonomy to these groups and challenged dehumanizing societal injustices through respect and support for situational differences.

In addition, goods and services were provided through public sectors, which ensured that goods and services were delivered in an affordable and fair manner to all citizens. This is advantageous to marginalized groups because they often live in poverty and cannot afford to compete in a competitive private market. This helps ensure that their basic human needs are met. Further, a universal system, eligibility guidelines for example, promotes equality in the system. This is particularly valuable for citizens whom stray from the privileged groups in Canadian society. For example, a universal system ensures that the system does not favour one racial identity over another and thus gives all racial groups equal access. Evidently, Keynesianism has a high potential to increase the well being of marginalized individuals, families and groups.

**Neoliberalism, Poverty, and Marginalized Groups**

As previously discussed, Neoliberalism valued the privatization of goods and services. This meant that services such as: health care, education and social programs were subject to the private market. These are services that support basic human needs and, likewise, should not be accessible according to social status (Lightman, 2003, p. 111). When access to basic needs are denied due to lack of financial security, groups experiencing poverty are further disadvantaged and unable to participate in the private market. This is a violation of the Canadian Charter of Rights and Freedoms, which states that all citizens have the right to have their needs met and to feel secure (Government of Canada, 2019). If an individual cannot afford water, food, shelter, health care, or relevant
social services, their basic needs are not met. If their basic needs are not met, security does not exist in their life. Many citizens are impacted in this manner, but marginalized populations are particularly vulnerable due to intersecting factors of Neoliberal ideology, racism, classism, ageism, etc.

Monetary values further disadvantaged marginalized groups, particularly those who lived in poverty. First of all, the government made cuts to social programming in an effort to reduce public spending and save money. However, many marginalized groups relied on these services to provide supports that non-marginalized groups innately have. In some cases financial cuts are detrimental to the health of marginalized groups. For example, Premier Mike Harris cut government spending through staff reduction in public services. One reduction was conducted on water inspectors. Due to the lack of inspectors, water was not tested in a small community named Walkerton; an outbreak of E. Coli was the result. Seven residents of this community died simply because they lived in a small rural community that was not prioritized. The subsequent costs to the health care system to solve this problem were greater than the money saved from the cuts to staffing (Westheus, Wharf, 2012, p. 12).

Monetary policy further provided autonomy to elite classes. For example, the Bank of Canada was provided the right to discretion over interest rates. This meant that borrowing rates became more expensive (Lightman, 2003, p. 38). For marginalized groups, this meant that the activities in which they could participate were limited because they could no longer afford the interest rates or were denied loans on the basis of their income. So, marginalized groups were unable to buy homes, cars and invest in their
future. In the long-term, this policy was advantageous to the elite class and debilitating to marginalized groups as they were left behind the rest of the population.

Neoliberal changes to the kind of jobs available had a negative impact on marginalized and impoverished groups because fewer jobs were full time, permanent with benefits. Instead, jobs became more contractual, part time and seasonal. For many citizens, this meant that a reliable source of income was not present. For people already living in poverty, this was detrimental, especially with the cuts to social programs, like Unemployment Insurance and Family Allowances, which previously provided security in the case of unemployment. Food insecurity, homelessness, stress, substance misuse, and many other issues were exacerbated among marginalized groups when citizens could not find dependable incomes. To add to the evident stress of Neoliberal changes to the welfare state, the introduction of clawbacks further made marginalized groups more vulnerable to poverty and general insecurity. Clawbacks impacted seniors in particular as they had to pay back a portion of their Old Age Security allowance if they were above a certain income. This is problematic for marginalized groups because it decreases their monthly income. As well, many citizens living in the lower socioeconomic classes did not have money saved. So, when the government unexpectedly demands money be returned, it would not have been possible for many or they would have had to give up a basic need, for example groceries for the week, in order to obey the clawback policy.

Obviously, Neoliberal changes to the welfare state in Canadian and OECD countries were detrimental to the well being of marginalized groups, particularly those living in poverty. Thus, the needs of the citizens in these states are not being ethically or morally met. Neoliberal welfare states make the assumption that citizens are competent
rather than assuring that citizens have the ability and resources needed to cope in the
economic market (Lightman, 2003, 111).

Conclusion

Historically, the Canadian and OECD welfare states have been influenced by various ideologies. This paper focused on Keynesianism and Neoliberalism. Keynesianism approached the welfare state with a collective perspective and encouraged government involvement in personal lives of Canadians. This approach was valuable to all Canadians, but particularly valuable to marginalized groups because it offered a closer to equal opportunity to participate in the economic market. This perspective encouraged equal opportunity through offering public services, funding income security programs, and taking a collective responsibility.

With federal deficits created though too much social spending by the federal government, Neoliberalism was adopted as the primary economic perspective in both Canada and OECD countries. This approach was advantageous for the upper classes as fewer taxes were collected from their paychecks and corporations, such as insurance companies, could utilize the privatization of the economic market to meet their financial motives. However, this perspective largely disadvantaged marginalized groups through reducing security through elimination of social programs, making it more difficult to make money with contractual work, and ultimately making it more difficult for these groups to effectively participate in the market.
References


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