

Pro-Brexit rhetoric mixes up two distinct interpretations of what made people vote to Leave the European Union – and they have very different policy implications. As **Thomas Sampson** explains, those voters wanting to reclaim sovereignty may view the likely negative economic impact as a price worth paying. But ‘left-behind’ voters blaming Europe for their economic problems will need policies other than Brexit to address the underlying causes of their discontent.

Brexit: the economics of international disintegration



The Brexit campaign succeeded because it received the support of a coalition of voters who felt left behind by ‘modern Britain’

The period since the Second World War has been marked by growing economic and cultural globalisation and, in Europe, increasing political integration under the auspices of the European Union (EU). Brexit runs counter to this trend and has ignited a debate about the future of the EU and the extent to which further globalisation is inevitable.

For example, after the Brexit vote, the European Commission issued a white paper laying out scenarios for the future of the EU. The options included not only muddling through or committing to closer integration, but also scaling back the EU to just the single market or building a multi-speed Europe.

It is too soon to know whether Brexit will prove to be merely a diversion on the path to greater integration, a sign that globalisation has reached its limits or the start of a new era of protectionism. In a recent study, I attempt to shed light on the implications of Brexit by summarising what research suggests are its likely economic consequences and discussing the evidence on why the UK voted to Leave the EU.

The economic consequences of Brexit

Forecasting the economic consequences of Brexit is made difficult by the lack of a

close historical precedent and uncertainty over the form that future relations between the UK and the EU will take. Facing this challenge, researchers have used three approaches to estimate the effects of Brexit:

- Historical case studies of the economic consequences of joining the EU (Campos et al, 2014; Crafts, 2016).
- Simulations of Brexit using computational general equilibrium trade models (Aichele and Felbermayr, 2015; Ciuriak et al, 2015; Dhingra et al, 2017).
- Data-driven estimates using evidence on how EU membership affects trade and how trade affects income per capita (Dhingra et al, 2017).

Each of these methodologies is subject to several limitations, but there is a consensus that in the long run, Brexit will make the UK poorer because it will create new barriers to trade, foreign direct investment and immigration. There is substantial uncertainty over how large the effect will be, with plausible estimates of the cost ranging between 1% and 10% of the UK's income per capita. EU countries are also likely to suffer from reduced trade, but in percentage terms their losses are expected to be much smaller.

The uncertainty over the size of the

Brexit effect has two sources:

- First, alternative research strategies produce quantitatively different results. Methods that attempt to capture the effect of Brexit on foreign direct investment and productivity growth lead to larger losses.
- Second, the losses will depend on the terms under which the UK and the EU trade following Brexit.

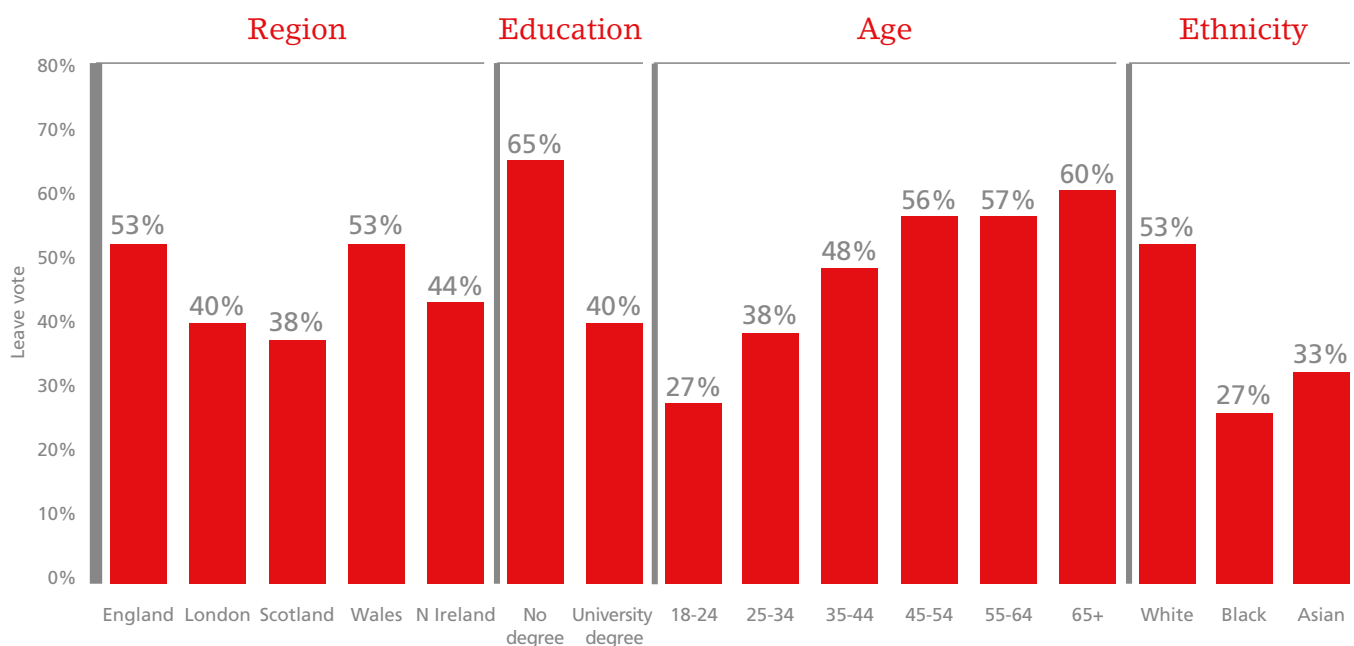
Continued membership of the single market is the best option for the UK and European economies. But if the UK leaves the single market, the research shows that to minimise the costs of Brexit, UK-EU negotiations should prioritise keeping non-tariff barriers low by avoiding regulatory divergence and ensuring market access in services rather than purely focusing on tariffs.

Who voted for Brexit?

The referendum split the electorate on the basis of region, education, age and ethnicity. Figure 1 shows data on voting patterns. England and Wales voted to Leave, while Scotland and Northern Ireland voted to Remain.

Within England, support for Brexit was noticeably lower in London, where only 40% voted to Leave. Older and less educated voters were more likely to vote

Figure 1: Voting patterns in the 2018 Brexit referendum based on region, education, age and ethnicity



Source: Regional data from the Electoral Commission; demographic data from Lord Ashcroft Polls (2016).

Broadly speaking, a feeling of social and economic exclusion appears to have translated into support for Brexit



Leave, while large majorities of black and Asian voters supported Remain. Voting to Leave the EU was also strongly associated with holding socially conservative political beliefs and thinking life in the UK is getting worse rather than better.

Econometric studies of voting outcomes by area (Becker et al, 2017) and voting intentions at the individual level (Colantone and Stanig, 2016) have established three main regularities:

■ **Education and age:** These are the strongest demographic predictors of voting behaviour, with education stronger than age.

■ **Poor economic outcomes:** At the individual or area level, these are associated with voting to Leave, but economic variables account for less of the variation in the Leave vote share than educational differences.

■ **Immigration:** Support for leaving the EU is strongly associated with self-reported opposition to immigration. But a higher share of EU immigrants in the local population is actually associated with a reduction in the Leave vote share. There is some evidence that growth in immigration, particularly from the 12 predominantly East European countries that joined the EU in 2004 and 2007, is associated with a higher Leave vote share, but the effect is small and not always present.

Overall, the picture painted by the voting data is that the Brexit campaign succeeded because it received the support of a coalition of voters who felt left behind by 'modern Britain'. People may have felt left behind because of their education, age, economic situation or because of tensions between their values and the direction of social change. But broadly speaking, a feeling of social and economic exclusion appears to have translated into support for Brexit.

Why did the UK vote for Brexit?

Knowing that left-behind voters supported Brexit does not tell us why they voted for Brexit. One possible explanation can be ruled out immediately. The vote was not the result of a rational assessment of the economic costs and benefits of Brexit.

As discussed, EU membership benefits the UK economy on aggregate. In addition, there is no evidence that changes in either trade or immigration due to EU membership have had large enough distributional consequences to offset the aggregate benefits and make left-behind voters worse off. This suggests that there are two plausible hypotheses for why the UK voted to Leave:

■ **Primacy of the nation-state:** Successful democratic government

requires the consent and participation of the governed. British people identify as citizens of the UK not the EU. Consequently, they feel the UK should be governed as a sovereign nation-state. According to this hypothesis, the UK voted to Leave because Brexit supporters wanted to 'take back control' of their borders and their country.

■ **Scapegoating of the EU:** Many people feel left behind by 'modern Britain'. Influenced by the anti-EU sentiments expressed by the country's newspapers and 'Eurosceptic' politicians, these individuals have come to blame immigration and the EU for many of their woes. According to this hypothesis, voters supported Brexit because they believe EU membership has contributed to their discontent with the status quo.

It is likely that both hypotheses played some role in the referendum outcome, but the evidence is insufficient to assess their relative contributions. When Leave voters are asked to explain their vote, national sovereignty and immigration are the most frequently cited reasons, but these responses are consistent with either hypothesis. They could reflect voters' attachment to the UK as a nation-state or they may mirror the language used by pro-Brexit newspapers and politicians.

But the hypotheses have quite

different implications for how policy-makers should respond to Brexit and for the future of European and global integration.

Brexit and the future of international integration

The nation-state hypothesis is closely related to Dani Rodrik's (2011) idea that nation-states, democratic politics and deep international economic integration are mutually incompatible.

From this perspective, the deep integration promoted by the EU, in particular free movement of labour and regulatory harmonisation, cannot co-exist with national democracy. For Europe to remain democratic, either the people of Europe must develop a collective identity or the supranational powers of the EU must be reduced.

But the nation-state hypothesis does not directly threaten the sustainability of shallow integration agreements that aim to lower tariffs and non-tariff barriers. The UK government's current approach to Brexit is based on the assumption that the nation-state hypothesis explains the Leave vote.

The scapegoating hypothesis does not call into question the ideal of the EU as a supranational political project or provide an immediate reason to reconsider the desirability of deep integration. But it does pose a different challenge to the future of international integration.

As long as geography continues to be an important determinant of group identity, international institutions will always be more vulnerable to losing popular support than domestic institutions. The finding of Colantone and Stanig (2016) that exposure to Chinese import competition had a positive effect

on support for Brexit is consistent with scapegoating of the EU.

If the scapegoating hypothesis proves correct, policy-makers seeking to promote European and global integration have two main options available:

- One option would be to channel popular protests against another target.
- Alternatively, policy-makers could focus on tackling the underlying reasons creating discontent among left-behind voters. Addressing economic and social exclusion is a daunting challenge, but enacting policies to support disadvantaged households and regions, and to broaden access to higher education would be an obvious starting point.

Conclusions

Understanding and responding to the motivations of voters who oppose the EU will play an important role in determining whether the many benefits of economic and political integration can be preserved for future generations. If voters supported Brexit to reclaim sovereignty from the EU, then provided they are willing to pay the economic price for leaving the single market, they will view Brexit as a success. But if misinformation drove support for Brexit, then leaving the EU will do nothing to mitigate voters' discontent.

If misinformation drove support for Brexit, then leaving the EU will do nothing to mitigate voters' discontent

This article summarises 'Brexit: The Economics of International Disintegration' by Thomas Sampson, *Journal of Economic Perspectives*, 31(4): 163-84 (earlier version available as CEP Discussion Paper No. 1499: <http://cep.lse.ac.uk/pubs/download/dp1499>).

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Further reading

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