

***Benuka Ferdousi*****WHY BREXIT? A POLITICO-ECONOMIC ANALYSIS****Abstract**

Brexit is a significant development in global economy and politics which, in near future, is going to shape the politics and economic policies in the United Kingdom (UK), Europe and beyond. As such, Brexit has raised significant discussion in the academia and policy level all over the world. As a part of this discussion, this paper aims to advance the discussion through identifying the factors which led the UK people towards Brexit. It reveals that European Union (EU) membership is an over-all benefit for the UK, particularly in cases of trade, investment and negotiating power and before the referendum most of the estimates, if not all, depicted a gloomy picture of the UK economy after Brexit. Yet, majority of the UK people voted for Brexit because they had been suffering from some 'real' problems for a long time – lower wage, tight housing market and overcrowded schools and hospitals, for which they wrongly held the EU and the immigrants liable, being influenced by their politicians as well as by their long-standing anti-EU sentiment. The paper reveals that 'real' causes of the sufferings of the UK people lie in the two basic features of the structure of the UK economy: growing financialisation and neoliberal path of development. Therefore, it can be said that financialisation and neoliberalism were the ultimate factors which, being strengthened by other political factors, led the country towards Brexit.

**1. Introduction**

In a historic referendum on 23 June 2016, the British people decided to exit the European Union (EU) which has been termed as 'Brexit'. Although Brexit shocked the global leaders, it perhaps did not surprise them. It is mainly because Britain was never very enthusiastic about the EU and its relations with the EU were never smooth.

When the European Coal and Steel Community (which can be considered as the embryo of the EU) was formed in 1951, the UK did not join it. It also refrained from joining the six founding nations of the European Economic Community (EEC) in signing the Treaty of Rome in 1957. Later, strong post-war recovery of France and Germany at a time when the UK economy was stuck, prompted the latter to apply for EEC membership. However, it was vetoed twice (in 1963 and 1967) by the French President Charles de Gaulle. Despite making a long diplomatic effort, the UK could not manage to secure membership of EEC until Charles de Gaulle left office in 1973.

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Britain's journey as a member of the EU experienced both convergence and divergence from the EU.<sup>1</sup> Consequently, in British politics, 'Europe' had more than often been a hotly debated issue. "..... (i)t has caused divisions ... not only between the parties, divisions which perhaps could have been handled, but also deep divisions within the parties."<sup>2</sup> Europe issue divided the Labour Party in 1981 when its pro-Europe fraction split off to form the Social Democratic Party (SDP). On the Conservative side, it led to the fall of Margaret Thatcher who strongly rejected the idea of "a European super-state exercising a new dominance from Brussels". And, it happened despite her success in securing the much-desired permanent rebate for Britain on its EEC contributions.

During the post-Thatcher period, Europe again saw Britain 'marching towards continent'. Maastricht Treaty, which transferred huge power to the new European Union, was signed by Thatcher's Conservative successor John Major in 1992 and the opted out social chapter was signed by his successor Labour Premier Tony Blair. Britain, however, opted out of the single currency. The scenario changed again after the recent euro crisis, which not only justified Britain's opting euro, it also fuelled the persisting euroscepticism in the UK along with other factors. In December 2011, as EU leaders tried to salvage euro, the fate of which was then hanging on balance through a treaty setting new budget rules, Cameron insisted on securing a "protocol" for the City of London on trade in financial services as the price of his assent to the German-led euro salvation blueprint. When France and Germany refused to agree to it, Cameron vetoed the pact. To the critics, "this cut Britain adrift"<sup>3</sup>

Eventually in the UK, euroscepticism rose to a height so much that in European Parliament Election 2014, the anti-EU UK Independence Party (UKIP) secured plurality, leaving the Conservative Party in third place. That was for the first time in 108 years that a party other than the Conservative or Labour had topped a nationwide poll. Faced with rising euroscepticism, in January 2013, Cameron promised that, should his Conservative Party win a parliamentary majority at the 2015 General Election, his government would negotiate with the EU for more favourable arrangements for the UK and if negotiation fails, they would hold a referendum on whether the UK should remain in or leave the EU. The changes that Cameron vowed to negotiate included among others, tougher immigration rules, exemption of non-euro members from bailing out troubled euro members, new powers for national parliaments collectively to veto proposed EU laws and exemption of the UK from "ever closer union". As a reaction to his announcement, Labour Party committed legislating a referendum lock which would guarantee that there would be no longer transfer of power to the

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<sup>1</sup> For a short account of these ups and downs, see, "Britain and the EU: A Long and Rocky Relationship", *BBC News*, 01 April 2014, available at <http://www.bbc.com/news/uk-politics-26515129>, accessed on 07 July 2016.

<sup>2</sup> Vernon Bogdanor, "Britain and the Continent", 17 September 2013, available at <http://www.gresham.ac.uk/lectures-and-events/britain-and-the-continent>, accessed on 09 June 2016.

<sup>3</sup> "David Cameron blocks EU treaty with veto, casting Britain adrift in Europe", *The Guardian*, 09 December 2011.

EU without an in-out referendum. The Liberal Democratic Party also made similar promise. Thus, faced with increasing euroscepticism and a rising UKIP, all three major parties of the UK committed to some sort of referendum to manage their internal unease over Europe issue. After the 2015 Parliamentary Election which was won by the Conservative Party, the avowed negotiation failed and the referendum on EU membership took place on 23 June 2016.

Brexit is, thus, a significant development in global economy and politics which is going to shape the politics and economic policies in the UK, Europe and beyond in near future. Given this background, it is pertinent to analyse what led or compelled the UK to opt for Brexit amidst so much warnings and urges from leaders all over the world, including the Chief of International Monetary Fund (IMF), Prime Minister of Japan and the President of the United States (US). The objective of the present paper is to find out those factors. In doing so, it will seek answer to the following questions: 1) How was the relationship between the UK and the EU? In other words, given the UK-EU relations, was Brexit an unexpected outcome? 2) Did the UK benefit from the EU membership, or not? If yes, why did then the UK voters wanted to leave EU? 3) Was the cost and benefit of EU membership the sole determinant in Brexit? If not, what were the other factors? 4) What role did immigration issue play in Brexit? 5) What were the root causes that led the British people to leave the EU?

With this end in view, the paper is organised as follows. After introduction which includes a summary of the relationship between the UK and the EU, section two examines the costs and benefits of EU membership for the UK. Section three aims to figure out the probable consequences of Brexit. Section four provides an analysis of the voting pattern to see who voted to leave the EU. Section five attempts to identify the root causes that led majority of the British people to say 'No' to the EU. Section six concludes the paper. The paper uses secondary data and follows the method of document analysis. It deals with the causes of Brexit and not its outcomes or implications, all the developments that took place after Brexit are beyond the scope of the paper.

## **2. Costs and Benefits of EU Membership for the UK**

A central question in Brexit campaign was: will the UK economy be better or worse off after Brexit? How will UK's production, trade and investment be affected by Brexit? Annex 1 provides a summary of the major arguments of the 'Leave' and 'Remain' groups regarding these aspects while subsections 2.1 and 2.2 deal with the benefits from and costs of EU membership for the UK respectively.

## 2.1 Benefits from EU Membership

For the UK, the EU is the largest destination of export of goods and the biggest source of import and Foreign Direct Investment (FDI). In 2015, the EU accounted for 44 per cent of total UK goods and services export, 53 per cent of UK import<sup>4</sup> and 47 per cent of UK FDI stock.<sup>5</sup> Even if one accounts for “Rotterdam Effect”<sup>6</sup>, the scenario will remain almost unchanged.<sup>7</sup>

The European Single Market makes the whole of the EU as the domestic market of the UK. Larger ‘domestic’ market is supposed to not only increase sales of UK firms, it is also supposed to lead to increased productivity. But to what extent does the EU boost the UK’s trade? A study of Her Majesty (HM) Treasury of the UK found that trade between members of the EU was boosted by 38 per cent by membership of the union at the cost of five per cent trade diversion from non-member countries. For the UK, EU membership boosted trade by 7 per cent and diverted trade by 4 per cent. The study concludes, “the EU trade effect for the UK is significant, but smaller than the average effect for EU member states. This may reflect the fact that the UK was more open to trade than some member states before accession, and therefore, the relative impact may have been less.”<sup>8</sup> Another study by R. Barrell and A. Choy suggests, “the most important gains from EU membership for the UK come less from direct trade flows in line with specialisation and comparative advantage, but more from indirect ‘productivity’ benefits, such as from increased competition and economies of scale.”<sup>9</sup>

On the investment front, the EU is not only a major source of FDI for the UK,<sup>10</sup> it also makes the UK more attractive to investors outside the EU. Investors invest in the UK to take advantage of the European Single Market; the country thus acts as a regional manufacturing hub. This argument was stressed by the ‘remain’ camp, particularly referring to the Japanese and the US investment in manufacturing sector. Prior to the referendum, the Japanese Prime Minister also categorically referred to this fact. Theories also support their claim. According to the theories of investment, drivers of FDI are — size of host market, transport cost, agglomeration effect, trade

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<sup>4</sup> Office for National Statistics (ONS), UK, *UK Perspective 2016: Trade with the EU and Beyond*, 25 May 2016, available at <http://visual.ons.gov.uk/uk-perspectives-2016-trade-with-the-eu-and-beyond/>, accessed on 10 July 2016.

<sup>5</sup> HM Treasury, *EU Membership and FDI*, available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220966/foi\\_eumembership\\_fdi.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220966/foi_eumembership_fdi.pdf), accessed on 10 July 2016.

<sup>6</sup> A part of UK export destined to port cities like Rotterdam and Antwerp, are re-exported to non-EU countries although these are counted as UK export to EU. This is called “Rotterdam Effect.”

<sup>7</sup> Office of National Statistics, UK, has estimated that “Rotterdam Effect” may account for around 2% of all exported goods and services to the EU.

<sup>8</sup> HM Treasury, *EU Membership and Trade*, available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220968/foi\\_eumembership\\_trade.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220968/foi_eumembership_trade.pdf), accessed on 15 July 2016.

<sup>9</sup> *Ibid.*

<sup>10</sup> Although as a result of the decision of the UK not to join the eurozone with the effect of exchange rate instability – EU FDI inflows to the UK fell by an estimated 80 per cent from 2002 to 2003, the EU still accounts for about 47 per cent of UK FDI stock.

openness, fiscal incentives and investment climate; size of market being the strongest driver.<sup>11</sup> The first four drivers are stronger if the UK is a member of the EU. There is no doubt that regardless of its EU membership, the UK has historically been a desired destination for foreign investment due to good infrastructure, strong rule of law, flexible labour markets and a highly educated and English-speaking workforce. At the same time, one cannot deny that EU membership has added to its attractiveness by reducing trade and investment costs and offering a larger market.

Therefore, EU membership is expected to have a positive impact on investment in the UK even after controlling the traditional favourable factors. In an empirical study, London School of Economics and Political Science (LSE) looked at bilateral FDI flows among 34 Organisation for Economic Co-operation and Development (OECD) countries (including the UK) over the last three decades and found that controlling for many other factors, EU membership has robust positive effect on FDI, ranging between 14 and 38 per cent under different statistical assumptions making the average effect to be 28 per cent.<sup>12</sup>

Being in the EU, the UK enjoys the benefits accruing from the EU clout. The EU, taken as a whole, is the world's largest economy and, hence the largest trading bloc. In 2014, the EU accounted for 23.8 per cent of world Gross Domestic Product (GDP) which is largest in the world and 15 per cent of world export (2<sup>nd</sup> largest in the world; up to 2013, the EU had the largest share).<sup>13</sup> Following figures show the EU's position in trade and investment *vis-a-vis* other large economies.

**Table 1: The EU's Position in Trade and Investment vis-a-vis Other Large Economies**

Country or Region	Trade in goods and commercial services 2013, (€ billions)		Share of world FDI in 2012	
	Export	Import	Outward Stock (%)	Inward Stock (%)
EU	2,415	2,188	45.50	34.20
US	1,688	2,079	35.70	26.50
China	1,817	1,716	3.50	5.60
Japan	648	750	7.20	1.40
South Korea	506	468		

Source: European Commission.

<sup>11</sup> *Ibid.*

<sup>12</sup> Swati Dhingra, Gianmarco Ottaviano, Thomas Sampson and John Van Reenen, *The Impact of Brexit on Foreign Investment in the UK*, London: London School of Economics and Political Science, Paper Brexit 03, available at <http://cep.lse.ac.uk/pubs/download/brexit03.pdf>, accessed on 10 July 2016.

<sup>13</sup> Available at [http://ec.europa.eu/eurostat/statistics-explained/index.php/The\\_EU\\_in\\_the\\_world\\_-\\_economy\\_and\\_finance](http://ec.europa.eu/eurostat/statistics-explained/index.php/The_EU_in_the_world_-_economy_and_finance), [http://ec.europa.eu/eurostat/statistics-explained/index.php/International\\_trade\\_in\\_goods](http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods), accessed on 10 July 2016.

Theories suggest that during trade negotiation, the trade partner, who has the larger domestic market, enjoys greater negotiating power. As the largest economy and the largest trading bloc, the EU therefore, enjoys a significant degree of clout in trade and investment negotiation. Especially, in dealing with large economies, like those of the US, China and Japan, such clout is of great use. The EU-US dispute over still tariff at World Trade Organization (WTO) in 2002, EU-US 'Open Skies' agreement, EU companies' gaining of intellectual property rights (IPR) in China — these are some examples where the EU's clout made its success easy.<sup>14</sup>

## 2.2 **Costs of EU Membership**

The benefits that the UK enjoys from EU membership in the cases of trade and investment and related negotiations are not without costs. There is one direct cost – contribution to the EU. Among the indirect cost, the biggest one is the loss of control on trade and investment and negotiation. EU membership implies that the UK's trade with the EU countries will be conducted by the rules of 'Single Market' and its trade with non-EU countries will be determined by 'Common Commercial Policy'. As a customs union, the EU represents all its 28 members at the WTO and negotiates on their behalf. Even bilateral free trade agreements are also conducted by the EU. Exclusive EU competence in both external and internal trade thus left no room for the UK to maneuver in pursuing its own trade policy except trade promotion. Besides this loss of control on trade, investment and negotiation, there are also other indirect costs.

First, in the case of trade, an important drawback of EU membership is that the EU lags behind in trade in services. As a result of a long period of economic transformation of the UK, service has become more important compared to manufacturing; at present, service comprises about 40 per cent of the UK export.<sup>15</sup> However, to the despair of the UK, the EU achieved little progress in trade in services. While in goods, 33.6 per cent of EU GDP is subject to intra-EU trade, in the case of services intra-EU trade involves only 3.2 per cent of EU GDP although, like the UK, the share of service is greater in the EU economy compared to goods.<sup>16</sup>

Developing and liberalising trade in services are far more complex than trade in goods. Such liberalisation is contingent on a number of factors many of which are inherently 'domestic'. Consequently, greater liberalisation of services within the EU Single Market has often faced political opposition in many of its member states.<sup>17</sup> This limitation of the EU in trade in services fades the prospect of the union in the eye of the 'Leave' camp.

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<sup>14</sup> Stephen Booth and Christopher Howarth, *Is EU Membership Still the Best Option for UK Trade?*, London: Open Europe, June 2012, p. 12, available at <http://conservativehome.blogs.com/files/2012eutrade-2.pdf>, accessed on 01 July 2016.

<sup>15</sup> *Ibid.*

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

Second, the EU clout is also not an unmixed blessing. In striking a deal with a third party, the EU has to go through a complex task of catering to the interests of all 28 members, interests of whom often diverge and thus results in a messy compromise.<sup>18</sup> Also, the EU often bundles non-trade issues like human rights or environmental issues into trade agreement. Such approach of the EU, although highly appreciated by some sections in Europe and abroad, dissatisfy others (even in 'Remain' camp) who hold a strict market-oriented view.

### 2.3 *Contribution to the EU Budget*

One of the major propagandas of 'Leave' camp was that as its contribution to the EU budget, the UK pays the EU over £350 million a week – an amount enough to build a National Health Service (NHS) hospital every week. The UK's gross national contribution to the EU was £18.8 billion in 2014. It is by dividing this number by 52 weeks that one comes to the widely-reported figure of £365 million a week as the UK's contribution to the EU.

But this figure is misleading as it fails to take into account the rebate and the EU's payment to the UK public and non-public bodies. To get net payment of the UK to the EU, one has to deduct three items from the gross national payment. First, UK rebate the amount the HM Treasury deduct before making payment to the EU. Second item to be deducted is the EU payment to the UK public sector. This includes payments that are made to the UK public sector, but then pass on to the private sector in the form of agricultural support payments and regional development funds. The third item of deduction is the EU payment to the UK non-public bodies. This includes some research payments made to the UK organisations. After all these deductions, the UK's net contribution to EU budget stands at £110 million per week, less than one third of the amount £350 million.<sup>19</sup> In fact, not all in the 'Leave' camp promoted the figure 'over £350 million per week'. Some of them did admit that a part of this contribution returned to the UK but this figure floated throughout the Brexit campaign.

<sup>18</sup> Roger Bootle, "Three Reasons Why Britain Needs Brexit", *The Telegraph*, 01 November 2015, available at file:///C:/Users/Benuka/Documents/articles/brexit/Three%20reasons%20why%20Britain%20needs%20Brexit%E2%80%99%20-%20Telegraph.htm, accessed on 10 August 2016.

<sup>19</sup> UK Statistics Authority, *Letter from Sir Andrew Dilnot to Norman Lamb MP*, 21 April 2016, available at <https://www.statisticsauthority.gov.uk/wp-content/uploads/2016/04/Letter-from-Sir-Andrew-Dilnot-to-Norman-Lamb-MP-210416.pdf>, accessed on 15 August 2016.

**Table 2: Contribution of the UK to the EU (£ million)**

	2010	2011	2012	2013	2014	Weekly payment in 2014
1 Gross Contributions (before rebate)	15,999	16,075	16,441	19,337	19,107	365
2. Gross Contributions (after rebate)	12,953	12,931	13,331	15,702	14,691	285
3. Net contribution (excluding the EU payment to public sector bodies only)	7,225	7,543	8,536	11,271	9,872	190
4. Net contribution (excluding the EU payment to both public and non-public sector bodies)	6,790	6,300	7,500	9,130	5,170	110

Source: Office of National Statistics, UK.

Table 2 shows that in 2014, the UK spent £4.17 billion as its net payment to the EU. After Brexit, this amount (£5-8 billion) might be added to the public spending but there are two caveats. First, if after Brexit, the UK follows the Norwegian or the Swiss option, it will have to continue contributing to the EU which would be 83 and 41 per cent of the present contribution, respectively.<sup>20</sup> Hence, under a trade agreement similar to Norway or Switzerland, little would be left to spend in public services. Second, if the trade and investment situation deteriorates after Brexit as is apprehended by many, there is doubt whether any amount would be left at all.<sup>21</sup>

After a close examination of the cost and benefits of EU membership, it appears that i) in the case of trade, the EU is a mixed blessing for the UK; ii) although the UK has always been an attractive destination for FDI, it being the gateway to the EU acts as a strong source of incentive for the investors; iii) the EU clout undoubtedly benefits the UK but at times this clout itself becomes a problem due to conflict of interest; iv) all the benefits in trade and investment that the EU accounts for, comes at the cost of surrender of the country's own control on its trade and investment; and v) the UK's contribution to the EU, which is much lower than the figure propagated by the 'Leave' campaign, would certainly be saved after Brexit but how much of it would be available for public finance is a matter of doubt.

<sup>20</sup> Swati Dhingra, Gianmarco Ottaviano and Thomas Sampson, *Should We Stay or Should We Go? The Economic Consequences of Leaving the EU*, London: London School of Economics and Political Science, Paper EA022, available at <http://cep.lse.ac.uk/pubs/download/EA022.pdf>, accessed on 15 August 2015.

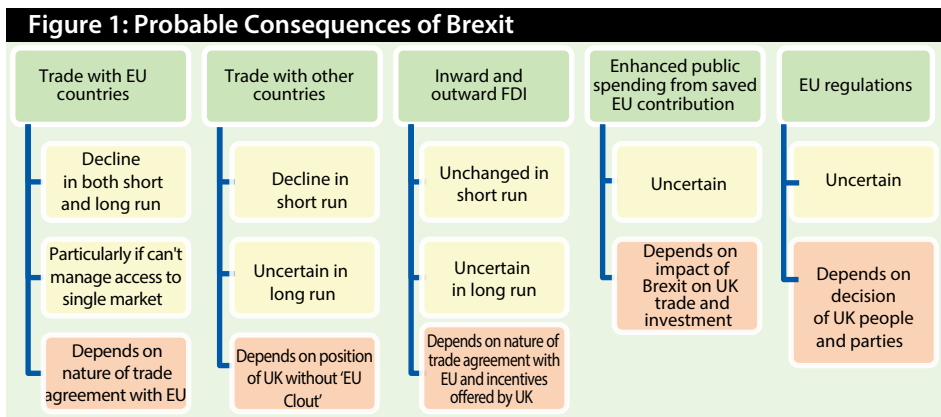
<sup>21</sup> Carl Emmerson, Paul Johnson, Ian Mitchell and David Phillips, "Brexit and the UK's Public Finance", *IFS Report 116*, London: Institute for Fiscal Studies, May 2016, available at <https://www.ifs.org.uk/uploads/publications/comms/r116.pdf>, accessed on 20 June 2016.



Thus, the facts and figures suggest that EU membership is an over-all benefit for the UK, particularly in terms of trade, investment and negotiating power. Why did, then, the majority of the UK voters say 'no' to the EU? What future did they expect or apprehend while voting in the referendum? The next section deals with it.

### 3. Probable Consequences of Brexit

Figure 1 shows the possible consequences of Brexit in a schematic way. It suggests that the ultimate cost or benefit depends on many questions like how advantageous trade agreement the UK could make with the EU, how will the UK fare in trade negotiations with countries such as the US or China in absence of 'EU Clout', what will be the regulatory regime in post-Brexit UK and so on.



Source: Author.

'Leave' camp argues that the UK will certainly be able to make a favourable trade agreement with the EU because the country is the largest destination of the EU export and of the 27 EU countries, most have trade surplus with the UK.<sup>22</sup> But their claim that the UK is the largest destination of the EU export is partially true. Table 3 reveals that this is true only if one ignores the intra-EU trade while calculating the country share of the EU exports.

<sup>22</sup> "Everything you might want to know about the UK's trade with the EU", available at <https://fullfact.org/europe/uk-eu-trade/>, accessed on 18 June 2016.

**Table 3: Share of Individual Countries in EU Goods Export, Treating the UK as outside the EU**

Excluding intra-EU trade	Including intra-EU trade
UK (17%)	Germany (13%)
US (17%)	France (8%)
China (8%)	UK (7%)
Switzerland (6%)	US (7%)
Turkey (4%)	Italy (5%)

Source: Full Fact, UK.

On the other hand, the EU accounts for 44 per cent of UK export of goods and services. Moreover, despite the fact that the UK runs trade deficit with most EU countries, only for Ireland and Cyprus does the UK represent more than 10 per cent of total (including intra-EU) exports.<sup>23</sup> The ‘Remain’ camp, therefore, holds that as export destination, the EU is more important for the UK than it is for the EU. Consequently, there is little hope for a generous deal for the UK. More importantly, they argue that if the UK is allowed to have a favourable trade agreement even after leaving the EU, this will have a demoralising and disintegrating effect on the EU and it is quite unlikely that the union will take such risk.

Another important factor which makes the impact of Brexit uncertain is the uncertainty over performance of the UK in trade negotiations with other countries in absence of EU clout. ‘Leave’ camp claim that as the fifth largest economy as well as a widely known investment-friendly open economy, the UK has its own clout and hence will not face much difficulty in such negotiations even on its own. On the other hand, ‘Remain’ camp argues that in a world with powerful regional trading blocs, such as North American Free Trade Agreement (NAFTA), Association of South East Nations (ASEAN) and Mercado Comun del Sur (MERCOSUR) and in a time marked by growing trade regionalisation, this will not be an easy task. In trade negotiations, these large blocs with their large domestic market will leave the UK at a comparative disadvantage.<sup>24</sup>

A popular campaign of the ‘Leave’ camp presents the old Commonwealth of Australia, Canada and New Zealand as an alternative to the EU but many analysts question “whether that romantic attachment to old imperial and English-speaking ties can be turned into an effective policy.”<sup>25</sup> They remind, “The number one problem is that everyone else has moved on... They have been pretty successful at forging ‘post-

<sup>23</sup> Jonathan Portes, “After Brexit: how important would UK trade be to the EU?”, National Institute of Economic and Social Research, 02 November 2015, available at <http://www.niesr.ac.uk/blog/after-brex-it-how-important-would-uk-trade-be-eu#.WB6opPTcJlK>, accessed on 08 June 2016.

<sup>24</sup> Booth and Howarth, 2012, *op. cit.*, p. 8.

<sup>25</sup> Quentin Peel, “Historic Misunderstanding Underlies UK-EU Relationship”, *Financial Times*, 19 September 2016.

British' foreign policy identities."<sup>26</sup> Indeed, "The world in 2016 is very different from that of 1946."<sup>27</sup>

It, therefore, can be said that at present stage, answer to the question whether the UK will benefit or lose from Brexit is at best uncertain. That the ultimate impact of Brexit on UK economy is uncertain is reflected in the predictions made by different groups over the impact of Brexit on UK GDP.

Table 4: Assessment of 2030 Economic Impact of Brexit	
Organisation	Estimated GDP Growth Rate (%)
Centre for Economic Performance, London School of Economics and Political Science	-1.3 to -7.9
HM Treasury, UK	-3.8 to -7.5
OECD	-2.7 to -7.7
National Institute of Economic and Social Research	-1.8 to -7.8
Oxford Economics	-0.1 to -3.9
Open Europe	-2.2 to +1.6
Economists for Brexit	+4.0

Source: Institute for Fiscal Studies, London, UK.

Wide range of GDP predictions (from +4 to -7.9 per cent) shown in Table 4 is a testimony of how uncertain the economic consequences of Brexit are. All these facts and figures suggest that the costs and benefits of EU membership were very significant factors in Brexit. However, there were other important factors which led the majority of the UK people to vote against the EU despite the fact that most of the estimates, if not all, depicted a gloomy picture of the UK economy after Brexit.

#### 4. Who Voted to Leave?

The first thing to say about the voting pattern of the referendum is that it reveals how divided the country is on the question of the EU. According to some analysts, "Britain's shock vote to leave the European Union has divided the country geographically, as well as between generations, between cities and rural areas and between Britons with and without a university education"<sup>28</sup> BBC finds that, i) of the 30 areas with the most elderly people, 27 voted to leave; ii) of the 30 areas with the fewest graduate, 28 voted to leave; and iii) of the 30 areas with most people identifying them as English, all voted to leave.<sup>29</sup> Besides age and education, *The Guardian* identifies

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

<sup>28</sup> *Economic Times*, available at <http://economictimes.indiatimes.com/news/international/world-news/anatomy-of-brex-it-a-divided-kingdom/articleshow/52899220.cms>, accessed on 18 July 2016.

<sup>29</sup> "EU referendum: The result in maps and charts", *BBC News*, 24 June 2016, available at <http://www.bbc>.

income as another important determinant with lower income people voting more to leave.<sup>30</sup> Maps and charts emerging from analyses of voting pattern by many other organisations share the same view.

The question now is who are those comparatively poor and less educated elderly people opposing the EU strongly? Its answer can be found in the geographical distribution of voters. In the referendum, Scotland, Northern Ireland, London and other university cities voted to remain in the EU while Wales and large swathes of England, particularly former industrial hubs in the north with large working class backed Brexit strongly.<sup>31</sup> Hence, it is primarily the working class of the UK which was the driving force of Brexit. If one takes into account that almost every area where more than 30 per cent of the residents were not UK-born, voted to remain,<sup>32</sup> while the white working class emerges as the leading force behind Brexit.

This white working class of the UK is witnessing a diminishing social status. In recent years, the UK saw a marked improvement in average educational attainment but this improvement has not made any impact on this white working class. They now comprise that section of the UK society which are the least educated and are most likely to be in low-paid work and competing for scarce supply of social housing.<sup>33</sup> Their offsprings are less likely to go to university compared to immigrant parents. Therefore, they are the least enthusiastic about the EU and out of fear of competition, are more antagonistic to immigrants.

Thus, the two approaches to analyse the voting patterns converge. It is the white working class which is less educated, ill-paid and hence holds anti-immigrant sentiment that played the decisive role in Brexit. It can be added here that among the white working class, the elderly ones who have been facing falling wage and deteriorating living standard for a long time, are more likely to vote 'leave' and this is what the age pattern of voting reflected. In sum, the UK referendum has exposed the gulf between a liberal metropolitan class, doing well from globalisation and the working class people, 'left behind' in the process of globalisation and hence are worried about immigration.

What is the source of the deep resentment among the white working class? Why is their situation deteriorating over the years? These questions lead one to the root of the crises faced by the UK people which prompted them to vote against the EU despite the warnings of a gloomy future.

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com/news/uk-politics-36616028, accessed on 02 July 2016.

<sup>30</sup> "The Areas and Demographics Where the Brexit Vote Was Won" *The Guardian*, 24 June 2016, available at <https://www.theguardian.com/news/datablog/2016/jun/24/the-areas-and-demographics-where-the-brexit-vote-was-won>, accessed on 30 June 2016.

<sup>31</sup> *Economic Times*, *op. cit.*

<sup>32</sup> "How Did Different Demographic Groups Vote in the EU Referendum?" *New Statesman*, 24 June 2016.

<sup>33</sup> Stephen Booth and Christopher Howarth, *Is EU Membership Still the Best Option for UK Trade?*, London: Open Europe, June 2012, p. 12, available at <http://conservativehome.blogs.com/files/2012eutrade-2.pdf>, accessed on 01 July 2016.

## 5. Why Brexit?

### 5.1 'Europe' issue in UK Politics

It was mentioned before that the UK was never very enthusiastic about the EU. Although euroscepticism is not a unique phenomenon in the UK, several factors have made the ambivalent feeling to the EU stronger in the UK.

First, Britain's sense of exceptionalism. Back in 1930, Churchill wrote, "We rejoice at every diminution of the internal tariffs and the martial armaments of Europe. We see nothing but good and hope in a richer, freer, more contented European commonalty. But we have our own dream and our own task. We are with Europe, but not of it. We are linked, but not comprised."<sup>34</sup> In the referendum too, it was found that of the 30 areas with most people identifying them as English, all voted to leave. This British attitude of exceptionalism is rooted in its imperial history. For many British people, joining the EU was an abdication of a wider global role on Britain's part. Growing role of Germany and France in recent times in setting the EU agenda has added fuel to this attitude.

Second, as a consequence of the above-mentioned exceptionalism, Britain's relationship with the EU has become "a transactional one, a marriage of convenience with membership as a means to an end. That end has never been the EU's ideal of "ever closer union", but more of enhancing British wealth and power in the world."<sup>35</sup> Hence, when the British people realised that they had missed the economic growth enjoyed by Germany or France in the earlier phase of European integration, their enthusiasm about the EU was watered down. Recent eurozone crisis has further reduced the appeal of the EU in their eyes.

Third, eurozone crisis coupled with declining share of EU in the UK's export and the growing appeal of emerging markets has given rise to a sense that the EU is a dead horse and the UK should look for alternative.

While the UK had long been a fertile land for euroscepticism due to the above-mentioned factors, it reached a new height in recent times. In fact, euroscepticism reached a new height all over Europe after the EU, associated with the IMF, imposed austerity programme on the countries hit hard by the eurozone crisis. The humiliation of those countries and the sufferings of their people brought about by the imposed austerity programme prompted the British people, who themselves were suffering from and protesting the austerity policy of Cameron's government, to reject the EU outright through the referendum.<sup>36</sup>

<sup>34</sup> Available at <http://www.winstonchurchill.org/publications/finest-hour/finest-hour-104/wit-and-wisdom-12>, accessed on 03 July 2016.

<sup>35</sup> Tim Oliver, "Europe's British Question: The UK-EU Relationship in a Changing Europe and Multipolar World", *Global Security*, Vol. 29, Issue 3, 2015, p. 413.

<sup>36</sup> Kevin Zeese, "Brexit: Backlash against EU Revolt against Elites", 26 June 2016, available at <http://www>.

Thus, the long-standing anti-EU sentiment, heightened by the austerity programmes, partially explains why majority of the British people voted to leave EU amidst all gloomy pictures of Brexit painted by the analysts.

## 5.2 *Immigration – A ‘Toxic’ Issue*

Immigration has been a hotly debated issue in the UK in recent years and it played a decisive role in Brexit. Indeed, immigration increased significantly in the UK in the last 20 years and EU countries have a significant contribution in this growth, especially after the accession of the eight East European countries (henceforth described as A8). During this period, immigration from the other EU countries to the UK tripled from 0.9 million to 3.3 million which gave the eurosceptics a good opportunity to blame the EU for creating pressure on the lives of the Britons through immigration.

As a member of the EU and European Single Market, the UK has to abide by the rule of free movement of labour which, according to eurosceptics, is flooding the UK with citizens from comparatively less developed EU countries, the A8 countries for example. They claim that the surge of immigrants is creating challenges to the UK economy and society in various ways. First, the flow of less educated, less skilled immigrants creates downward pressure on wage as well as reduces the employment opportunities and facilities at work-place for the Britons. Second, they create pressure on housing, education, health and other services. Third, they are affecting the social fabric of the UK, and fourth, in an era of increased terrorism and religious extremism, large flow of immigrants increases the vulnerability of the country. The ‘Leave’ camp also warns that further expansion of EU, for example, inclusion of Turkey, will make the challenges more severe and make their lives harder in the coming days.

On the other hand, the ‘Remain’ camp argues that immigration contributes in economic development of the UK by creating extra demand and channeling skilled manpower. Against the notion that immigrants create pressure of housing, education and health services, they argue that immigrants pay more in taxes than they take out in welfare and through use of public services.

What do facts and figures say about these arguments over immigration? A thorough analysis of Labour Force Survey of the UK, conducted by Centre for Economic Performance (CEP) of LSE shows that many of the allegations made by the ‘Leave’ camp against the EU immigrants are not supported by statistics.

First, contrary to the general belief, immigrants, both from the EU and non-EU countries are more educated than UK-born individuals which is clear from Table 5.

**Table 5: Education by Immigration Status (working age population), 2015**

Education Level	UK-born	EU Immigrants	All Immigrants
High	23%	43%	45%
Medium	33%	42%	36%
Low	44%	15%	19%
Total	100%	100%	100%

Source: Centre for Economic Performance, LSE.

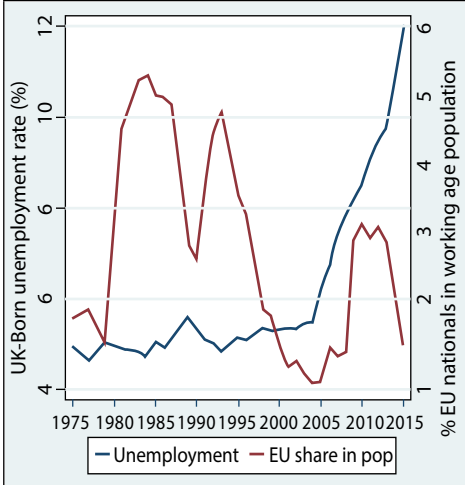
Second, EU immigration has not increased unemployment among UK-born individuals or reduced their wage. Figures 2.a and 2.b plot unemployment rate and median real hourly wage of UK-born individuals respectively against percentage of EU nationals in UK's working age population. Figure 2.a shows that unemployment rate of UK-born individuals has no clear relationship with EU immigration while Figure 2.b suggests that higher EU immigration 'does not necessarily mean' lower wage for UK-born individuals.

Third, one may argue that 'average' picture disguises local scenarios. It may be the case that although over-all UK-born individuals do not suffer from EU migration, in areas crowded with EU immigrants, they do suffer. To check whether this is true, CEP plots percentage change in unemployment rate among UK-born individuals in all local authorities of the UK against percentage change in EU immigration in corresponding locality. They do the same exercise for wage of the UK-born individuals. In line with the previous findings, Figure 2.c and Figure 2.d, suggest that areas with higher EU immigration are not necessarily the areas with higher unemployment rate or lower wage for UK-born individuals.

One will be more convinced by the findings of CEP if she/he keeps in mind that despite recent surge of EU immigrants to the UK, the EU nationals still account for only 35 per cent of all immigrants to the UK and only 5.3 per cent of its working age population.<sup>37</sup>

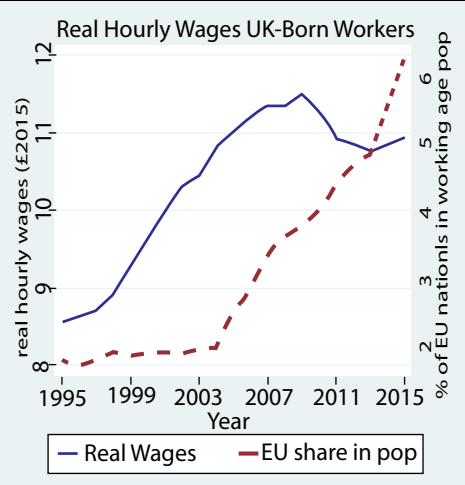
<sup>37</sup> Jonathan Wadsworth, Swati Dhingra, Gianmarco Ottaviano and John Van Reenen, *Brexit and the Impact of Immigration on the UK*, PaperBrex05, London: London School of Economics and Political Science, p 2-3, available at <http://cep.lse.ac.uk/pubs/download/brexit05.pdf>, accessed on 13 August 2016.

**Figure 2.a: Unemployment of UK-born and EU Immigration, 1975-2015**



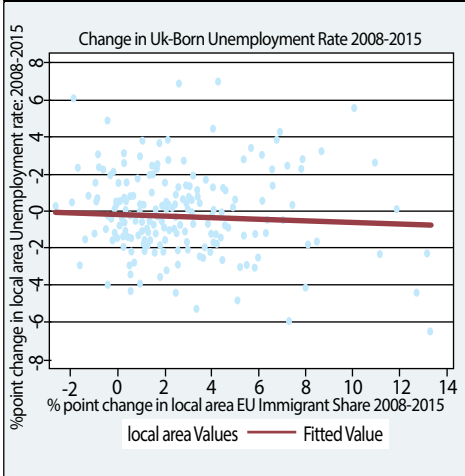
Source: CEP Analysis of Labour Force Survey

**Figure 2.b: Median Real Hourly Wages of UK-born and EU Immigration, 1995-2015**



Source: CEP Analysis of Labour Force Survey

**Figure 2.c: Change in Local Area UK-born Unemployment Rate and EU Immigration, 2008-2015**



Source: CEP Analysis of Labour Force Survey

**Figure 2.d: Change in Local Area UK-born Wage and EU Immigration, 2008-2015**



Source: CEP Analysis of Labour Force Survey



Then, the question arises: did the anti-immigration sentiment grows out of nothing? Not indeed. In recent years, UK people have been continuously exposed to lower wage, tight housing market and overcrowded schools and hospitals for which they have been blaming the immigrants.

British workers' real wage fell sharply between 2008 and 2014 with the biggest fall in the low wage group. In the case of housing, despite some improvement in last two years, the UK is still building a third less housing compared to 2007. This shortage in housing raised the price of house to such a high level which is out of reach for people of average incomes, let alone low paid workers, who are compelled to live in expensive privately rented accommodation. In terms of living space, the UK fares much worse compared to other EU countries.

Previous discussion shows that there is little statistical evidence in support of the view that immigration reduces wage or employment opportunity. But the same cannot be said about housing or education or health services. There is no doubt that inflow of immigrants has aggravated the housing situation and added burden to education, health and other services. Nevertheless, it is not the immigrants who have created the crises. As noted before, immigrants are net contributors to public finances. The problems with public services could be avoided if the tax that the immigrants pay to the UK government were used to build more houses, hospitals and schools on time.

If immigrants are not to be blamed for creating the crises, then what else is to be blamed? In case of real wage, it is the structure of the UK economy itself which is to be blamed. In the case of housing and other social services, responsibility goes to the public policy, which is too slow to respond to increased demand. Blame also partially goes to the austerity programme which UK people view as a policy imported from the EU.

Another question arises: if immigrants are not liable for the crises, why are people of a country like the UK, which has a strong record of integrating migrants, blaming them? The answer is 'Politics'. Upon failure to solve the structural problems of the UK economy and to address the chronic problems in housing and social services, successive UK governments, more precisely, politicians from all persuasions have made immigrants an easy scapegoat.<sup>38</sup> By driving the rise in anti-immigrant sentiment, actively or passively, they made sure that some of those who might have blamed the government or the politicians for their hardships would now blame the immigrants.

And, they have been successful. Anti-immigrant sentiment rose to a height so much so that at times, the referendum on EU membership appeared to be a referendum on immigration.

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<sup>38</sup> Simon Tilford, "Britain, Immigration and Brexit", *Centre for European Reform (CER) Bulletin*, Issue 105, December 2015-January 2016, available at [https://www.cer.org.uk/sites/default/files/bulletin\\_105\\_st\\_article1.pdf](https://www.cer.org.uk/sites/default/files/bulletin_105_st_article1.pdf), accessed on 03 July 2016.

### 5.3 The Root of the Crisis Lies in the Structure of the Economy

As the previous section suggests, British people were suffering from some ‘real’ problems for which they wrongly held the EU and the immigrants liable, being influenced by their politicians as well as by their long-standing anti-EU sentiment. To find the ‘real’ causes of their ‘real’ problems, it is necessary, at first, to recognise nature and severity of the ‘real’ problems.

#### 5.3.1 Falling Real Wage and Living Standard of the Working Class

The UK working class has been experiencing unprecedented fall in real wage and living standard for a long time. Median hourly real wage in 2014 was 10 per cent less than what was in 2008.<sup>39</sup> Data of last three decades show that growth rate of real wage is decreasing over time, resulting in negative growth during the period 2008-2014. The severity of the present decline in real wage will be clearer from Table 7 which shows that in terms of wage decline, UK working class is now going through the hardest time in one and a half centuries.

Table 6: Trend in Real Wage, UK			
Data Source	Annualised per cent Growth in Median Weekly Earnings		
	1988-2003	2003-2008	2008-2014
Annual Survey of Hours and Earnings	1.8	1.5	-1.7
Labour Force Survey	1.8	0.8	-0.8

Source: Stephan Machin, “Real Wage Trends”.

Table 7: Periods of Real Wage Falls over Long Term, UK					
	1865-67	1874-78	1921-23	1976-77	2007-14
Duration (years)	2	4	2	2	7
Depth (%)	-10	-1.7	-8.2	-6.6	-8.2
Recovery (%)	12.8	0.6	4.5	14.5	n.a.
Total changes over 7 years (%)	1.2	-1.1	-4.0	6.9	-8.2

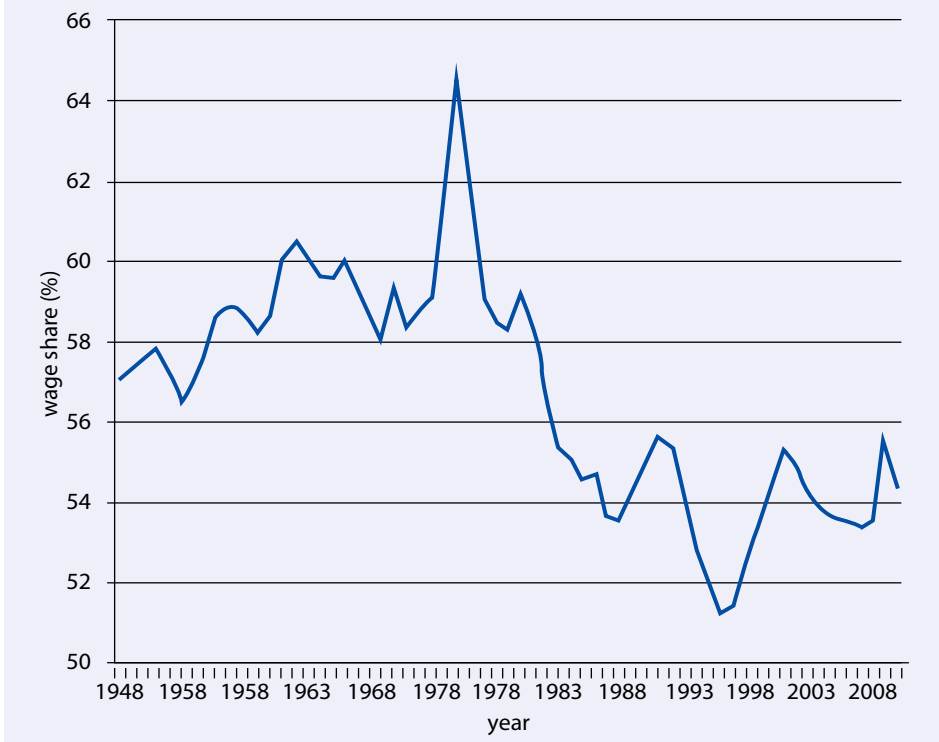
Source: Stephan Machin, “Real Wage Trends”.

Many analysts want to hold the Global Financial Crisis 2008 responsible for the dire situation of British working class. But as Figure 3 shows, in the UK, the deterioration of the relative position of the working class started in early 1980s. Moreover, this declining wage share has been accompanied by increasing inequality.

<sup>39</sup> Stephen Machin, “Real Wage Trends”, Paper presented at *Understanding the Great Recession: From Micro to Macro Conference*, Bank of England on 23-24 September 2015, available at [https://www.ifs.org.uk/uploads/Presentations/Understanding%20the%20recession\\_230915/SMachin.pdf](https://www.ifs.org.uk/uploads/Presentations/Understanding%20the%20recession_230915/SMachin.pdf), accessed on 03 July 2016.

In the UK, the real full-time earnings at the 90<sup>th</sup> percentile has doubled between 1978 and 2008 while that of 10<sup>th</sup> percentile grew only by 25 per cent; the bottom half of the earning distribution saw no growth at all since 2003. Wage inequality is now at its highest level in the post-World War II (WWII) period.

**Figure 3: The Falling Wage Share, UK, 1948 - 2011**



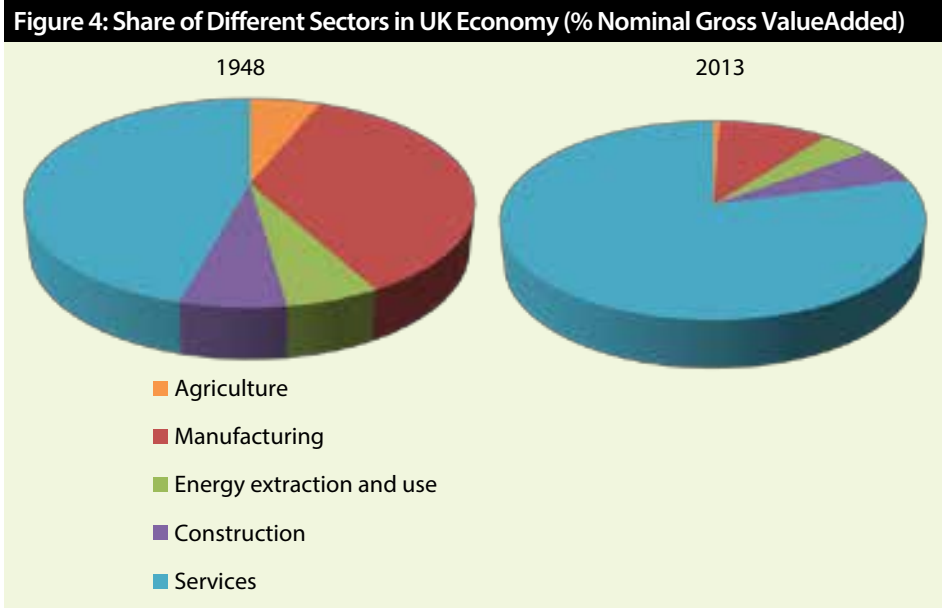
Source: Howard Reed, "How Can the UK Boost the Wage Share? The Rebalancing Requires Above All, A New Social Contract with Labour".

The root causes of deterioration of living standard of the British working class lie in the two basic features of the structure of the UK economy. First, growing financialisation and second, neoliberal path of development.

### 5.3.2 *Financialisation and Neoliberalism: Real Enemies of the UK Working Class*

After WWII, particularly since 1973, the UK economy has undergone a major transformation which is evident from Figure 3. Between 1948 and 2013, share of manufacture fell from 36 per cent to less than 10 per cent while that of service rose

from about 46 to 79 per cent. Share of service in export also rose from around 30 per cent in 1992 to around 40 per cent in 2008.<sup>40</sup>



Source: Office for National Statistics, UK.

Table 8 suggests that the UK is not alone; all the developed economies have gone through such transformation but the magnitude of shift is higher in the case of the UK. Specially, if one considers the growing significance of financial service sector, the UK is clearly ahead of all, even surpassing the US. According to statistics, UK financial service sector is almost as large as its manufacturing sector. However, in reality, the size of financial sector in an economy is much larger than statistics suggests. This is because “the financial sector is not employment intensive and its ‘products’ do not show up in transparent ways in national statistics.”<sup>41</sup> In the UK, share of financial sector in economy is, therefore, much higher than manufacturing sector. Economists term this process of growing significance of financial service as ‘financialisation’ of economy.

<sup>40</sup> Booth and Howarth, 2012, *op. cit.*, p. 11.

<sup>41</sup> For details, see Greta R Krippner, “The Financialization of the American Economy”, *Socio Economic Review*, No. 3, 2005, p. 182.

**Table 8: Share of Different Sectors in National Economy (% of Nominal GVA)**

Sector	UK	Canada	France	Germany	Italy	Japan	US	Brazil	Russia	India	China
Manufacturing	10	12	10	22	16	19	13	13	15	14	32
Services	79	66	79	69	74	73	79	68	60	56	45
Financial and insurance output	7	6.6	4.3	3.5	4.9	4.6	6.6				

Source: Office for National Statistics, UK.

Note: For Manufacturing and Service all data are for 2012 with the exception of Canada (2008), Japan (2011), US (2011) and China (2010). For financial and insurance output, all data are for 2012.

‘Financialisation’ affects the economy and lives of people in a country in a number of ways.<sup>42</sup> First, higher financial investment means less ‘real’ investment. Krippner<sup>43</sup>, Stockhammer<sup>44</sup>, Crotty<sup>45</sup> and others observe that in the US and other advanced economies, characterised by ‘financialisation’, Non-Financial Corporations (NFC) are increasing their financial investment relative to real investment. A number of studies suggest that increased financial investment and increased financial profit opportunities are crowding out real investment.<sup>46</sup> Stockhammer observes that NFC management in advanced economies are now giving more preference to financial investment and focusing more on short term returns rather than long term growth. Financialisation, in these ways, is resulting in cut in ‘real’ investment which in turn means less employment and lower wage. Financial sector provides less employment because it is less labour-intensive by nature.

Second, knowledge based service sector, particularly financial sector creates some new jobs but these require ‘sophisticated’ type of labour and hence

<sup>42</sup> For a short briefing on financialisation one can see, Thomas I. Palley, “Financialization: What it is and Why it Matters”, Working Paper, No. 525, The Levy Economics Institute and Economics for Democratic and Open Societies, Washington, D.C., December 2007, p. 2.

<sup>43</sup> Greta R Krippner, “The Financialization of the American Economy”, *Socio Economic Review*, No. 3, 2005, p. 182.

<sup>44</sup> Engelbert Stockhammer, “Financialisation and the Slowdown of Accumulation”, *Cambridge Journal of Economics*, Vol. 28, No. 5, September 2004, p. 727.

<sup>45</sup> James Crotty, “The Neoliberal Paradox: The Impact of Destructive Product Market Competition and ‘Modern’ Financial Markets on Non financial Corporation Performance in the Neoliberal Era”, cited in Gerald A. Epstein, (ed.), *Financialization and the World Economy*, Northampton, MA: Edward Elgar, 2005.

<sup>46</sup> For a detailed account of such studies, see Ozgur Orhangazi, “Financialisation and Capital Accumulation in the Non-financial Corporate Sector: A Theoretical and Empirical Investigation on the US Economy: 1973-2003”, *Cambridge Journal of Economics*, Vol. 32, No. 6, November 2008, pp. 863-886.

are not accessible to the people of lower income quintile. Furthermore, financial assets are mostly out of the reach of lower income group. For example, in the US, the richest 5 per cent population holds about 70 per cent of all financial wealth.<sup>47</sup> Many studies, therefore, have found financialisation to be associated with growing inequality. Flaherty examines the impact of financialisation on the income shares of the top one per cent in 14 OECD countries for the period 1990 to 2010 and finds that financialisation has significantly enhanced top income shares net of underlying controls.<sup>48</sup>

Third, through its negative impact on 'real' sector, financialisation exerts strong pressures on labour markets, erodes bargaining power of the labour and leads to more flexible employment relations. Darcillon examines the impact of the process of financialisation on two central labour market institutions, workers' bargaining power and employment protection legislation, in 16 OECD countries for the period 1970 to 2009 and finds increased financialisation to be clearly associated with a reduction in workers' bargaining power and in the strictness of employment protection.<sup>49</sup>

Fourth, by retarding growth in real investment, making the labour market tight and reducing the bargaining power of labour, financialisation leads to falling wage share, even in a period of productivity gain.

The UK economy and its people are suffering from all the consequences of financialisation discussed above. Daniele Tori and Özlem Onaran examine the effects of financialisation on physical investment in the UK using panel data based on balance-sheets of publicly listed non-financial companies for the period 1985-2013. Their "findings support the 'financialisation thesis' that the increasing orientation of the non-financial sector towards financial activities is ultimately leading to lower physical investment, hence to stagnant or fragile growth, as well as long term concerns for productivity."<sup>50</sup> There, "Financialisation'... is found to be a key driver of the upward concentration of income and thus of falling wage shares at the bottom."<sup>51</sup> And consequently, "wages of typical British workers have not been keeping up with productivity gains, origin of which predates the downturn (of 2008)."<sup>52</sup>

<sup>47</sup> Edward N. Wolff, "Changes in Household Wealth in the 1980s and 1990s in the U.S.," in Edward N. Wolff (ed.), *International Perspectives on Household Wealth*, Elgar Publishing Ltd., 27 April 2004, p. 30, available at <http://www.econ.nyu.edu/user/wolffe/WolffWealthTrendsApril2004.pdf>, accessed on 16 April 2015.

<sup>48</sup> Eoin Flaherty, "Top incomes under finance-driven capitalism, 1990–2010: power resources and regulatory orders", *Socio-Economic Review*, Vol. 13, Issue 3, July 2015

<sup>49</sup> Thibault Darcillon, "How does finance affect labor market institutions? An empirical analysis in 16 OECD countries", *Socio-Economic Review*, Vol. 13, Issue 3, July 2015.

<sup>50</sup> Daniele Tori and Özlem Onaran, "The Effects of Financialization on Investment: Evidence from Firm-Level Data for the UK", *Greenwich Political Economy Research Centre (GPERC) Paper 07*, 2015.

<sup>51</sup> Howard Reed, "How can the UK Boost Wage Share? Rebalancing Requires above all a New Social Contract with Labour", 20 August 2013, available at <http://blogs.lse.ac.uk/politicsandpolicy/how-can-the-uk-boost-the-wage-share/>, accessed on 13 July 2015.

<sup>52</sup> Machin, *op. cit.*

In his article, “Globalization and its New Discontents” Joseph Stiglitz observes, “Now, globalization’s opponents in the emerging markets and developing countries have been joined by tens of millions in the advanced countries.... Large segments of the population in advanced countries have not been doing well.”<sup>53</sup> He cites the work of Branko Milanovic, *Global Inequality: A New Approach for the Age of Globalization*, where the writer showed that among the big winners of globalisation were the global one per cent, the world’s plutocrats as well as the middle class in newly emerging economies while among the big losers – those who gained little or nothing – were the working classes in the advanced countries. According to Stiglitz, “globalization is not the only reason, but it is one of the reasons”.

In the same article, Stiglitz explains how the neoliberal policies affect the labour market of advanced economies. “Under the assumption of perfect markets (which underlies most neoliberal economic analyses), free trade equalizes the wages of unskilled workers around the world. Trade in goods is a substitute for the movement of people. Importing goods from China – goods that require a lot of unskilled workers to produce – reduces the demand for unskilled workers in Europe and the US.” This means that if following the neoliberal paradigm, the UK imports goods at a cheaper rate from China, it reduces employment and consequently wage of unskilled British labour without arrival of a single Chinese labour in the UK. Thus, in neoliberal paradigm, international trade in goods creates pressure on labour market at home.

The unskilled and less skilled labour forces of the UK and other advanced European countries, which are already under stress due to the process of financialisation, thus face further challenges from the cheap labour in foreign countries and are forced to accept lower wage and flexible labour market condition. Howard Reed observes that labour market reforms promoted by the OECD and other neoliberal economic policies have resulted in a flexible labour market in the UK. This flexibility of labour market has increased the willingness of workers to trade lower wages for unemployment. This explains the unusual feature of the UK labour market — lower unemployment accompanied by lower wage.<sup>54</sup>

Another aspect of flexible labour market enforced by neoliberal policies is reduction in trade union and collective bargaining coverage in the workplace. In the UK, this has resulted in a very sharp decline in union membership which is now very low in the country’s historical standard.<sup>55</sup> This certainly has added to the downward pressure on real wage and living standard of the British working class.

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<sup>53</sup> Joseph E. Stiglitz, “Globalization and its New Discontents”, 05 August 2016, available at <https://www.project-syndicate.org/commentary/globalization-new-discontents-by-joseph-e--stiglitz-2016-08>, accessed on 10 August 2016.

<sup>54</sup> Reed, *op. cit.*

<sup>55</sup> Machin, *op. cit.*

The above discussion suggests that falling real wage and living standard of the British working class had little to do with EU membership or immigration, although these two issues appeared to be the decisive factors in Brexit. Even if the UK leaves the EU and puts rigid restrictions on immigration, the sufferings of the British working class will not end because at the end of the day it is the basic economic structure of the UK which is to be blamed for this.

## 6. Concluding Remarks

The crises that led the British working class to say 'no' to the EU, are neither rooted in UK's membership of the EU, nor in immigration; it lies in the very structure of the UK economy, in the path the country has chosen for its development. The neoliberal path has benefitted a small section of the country leaving a great majority behind. As long as the existing economic structure of the UK prevails or the country does not take a new path of development, it is almost impossible to change the plight of its working class.

It is a tragedy for the British people that neither the 'Leave' camp offered a new path to improve the condition of the British working class nor did the 'Remain' camp show how their lives could be better in the EU. Samir Amin observes, in the Brexit campaign "the public is pummeled by the discourse on security and immigration, while the responsibilities of ordo-liberalism (neoliberalism) for worsening conditions of workers are left out of focus."<sup>56</sup> The 'Leave' camp made immigrants as well as the EU the scapegoats while the 'Remain' camp was blindly saying that increased trade and FDI ensured by EU membership were the only panacea. However, none put any straightforward proposal aimed at the betterment of the working class.

Therefore, it can be said that those who hoped their lives would be better out of the EU are misled. Brexit will not provide any solution to the problems of the British working class which they intended to solve by leaving the EU.

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<sup>56</sup> Samir Amin, "The Globalized Neoliberal System: Brexit and the EU Implosion", Global Research, 16 July 2016, available at <http://www.globalresearch.ca/the-globalized-neoliberal-system-brexit-and-the-eu-implosion%E2%80%A8/5536098?print=1>, accessed on 18 July 2016.



<b>Annex 1: Major Arguments in Favour of and Against Brexit</b>		
<b>Issue</b>	<b>Arguments of Leave Group</b>	<b>Arguments of Remain Group</b>
Trade and Investment	<ul style="list-style-type: none"> <li>• Although trade with the EU might decline after Brexit, it can be more than compensated through trading with Commonwealth countries and emerging economies.</li> <li>• The EU is holding back the UK from trading with key allies like Australia or New Zealand and growing economies like India, China or Brazil. Brexit will make the UK free to trade with the whole world.</li> </ul>	<ul style="list-style-type: none"> <li>• The EU is destination of 44 per cent UK export and source of 48 per cent FDI in the UK. Hence UK trade and investment will be hit hard by Brexit.</li> <li>• Due to its size, the EU enjoys significant clout in trade negotiation. Outside the EU, the UK alone will not have that clout in trade and investment negotiation.</li> </ul>
Immigration	<ul style="list-style-type: none"> <li>• EU immigrants to the UK have created pressure on the UK labour market, public services and housing.</li> <li>• Brexit will enable the UK to control immigration. The UK can set up a fairer system of immigration which welcomes people to the UK "based on the skills they have, not the passport they hold."</li> </ul>	<ul style="list-style-type: none"> <li>• Immigration is not a one-way traffic. A lot of the UK people have also migrated to other EU countries.</li> <li>• EU migrants are contributing in the UK economy. Although they are creating some pressure on public services, this can be solved by more investment in those sectors.</li> </ul>
Employment	<ul style="list-style-type: none"> <li>• The threat to jobs is exaggerated. The existing investment will not fly away if proper incentives can be provided.</li> </ul>	<ul style="list-style-type: none"> <li>• Over 3 million UK jobs are linked to the EU through trade, investment, etc. Brexit will plunge these jobs into uncertainty because the investors would be less likely to invest in the UK once it is out of the EU.</li> </ul>
EU Budget Contribution	<ul style="list-style-type: none"> <li>• The UK has to contribute £350 million to the EU a week which is enough to build a new NHS hospital every week. The UK gets less than half of this back as rebate and has no say over how it is spent.</li> </ul>	<ul style="list-style-type: none"> <li>• For each 1 pound paid to the EU, the UK gets back 10 pound through trade, jobs, investment and lower prices.</li> </ul>
Border Control	<ul style="list-style-type: none"> <li>• In a world with so many new threats, it is safer for the country to control its own borders and decide itself who can come into its territory, not be overruled by the EU judges.</li> </ul>	<ul style="list-style-type: none"> <li>• Without cooperating with other countries, the UK will not be able to save itself from the type of global terrorism that people are facing at present.</li> </ul>

<p>Sovereignty</p>	<ul style="list-style-type: none"> <li>• The European Court is now in charge of UK law – including how much tax UK people will pay, whom it will allow to let in and on what terms.</li> <li>• Faced with euro crisis, the EU is headed towards more closer union which means more losses of sovereignty.</li> </ul>	<ul style="list-style-type: none"> <li>• No bloc exists without some losses of sovereignty.</li> <li>• The UK alone cannot solve the big problems that it faces today — terrorism, climate change, cybercrime — without co-operating with others. And co-operation means compromise.</li> </ul>
<p>EU Laws and Regulations</p>	<ul style="list-style-type: none"> <li>• UK is overruled by EU regulations. Too much regulations hamper smooth functioning of the UK economy.</li> </ul>	<ul style="list-style-type: none"> <li>• Many EU regulations like those aimed at protection of labour rights and environment are good for the UK people in the long run, although they might hamper some economic activities.</li> </ul>