

The growth that isn't

By David Hearne, Researcher, Centre for Brexit Studies

Last week, this blog discussed how Brexit had resulted in the UK taking itself out of the running as a potential location of Tesla's 3rd major car manufacturing plant (a so-called "Gigafactory"). I pointed out that this was a single, admittedly rather pointed, example of investment that the UK has potentially foregone as a result of Brexit.

This week, I want to touch on an interesting variant of that theme. Specifically, I argue that voting for Brexit might have been a rational response to recent policy for a significant group of voters, even though it makes the UK as a whole worse off. Moreover, I'd venture to suggest that this might be true for certain groups even in the event that Brexit proves highly damaging (as it probably will be) for key local industries.

Consider the proposed "Gigafactory" that is now to be located in Brandenburg and not Britain. The primary beneficiaries will be those who work there, those who work in the supply chain and those who have invested therein. Consider for a moment who falls into these categories. Vehicle manufacture is considerably less labour intensive than it was in years gone by, and this is likely to continue as electric vehicles become more widely established.

Moreover, those jobs that are created tend to involve a very different skill set to those of yore. The upshot is that many of the potential workforce are likely to be more mobile than average (many from elsewhere in Europe) and since the work is well-paid they will tend to settle in areas locally recognised as salubrious. It is no accident that such areas tended to vote to remain in the EU (locally, the district of Warwick and Leamington is a prime example of this).

From an economic standpoint, the EU can be considered an exceptionally deep and far-reaching free-trade agreement. In general, economists are strongly pro-free-trade and with good reason: it provides a net overall benefit and in many cases both countries benefit. However, as a profession we have been guilty of failing to consider the distributional consequences of this *within* countries.

Typically, such concerns are waved away with platitudes: the “winners” from free-trade gain more than the “losers” lose and as a result the losers can be compensated such that everybody is better off. That this is theoretically true, however, does not mean that it has happened in practice. It is difficult to properly assess who has gained from freer trade and harder still to tax them in a way that does not distort incentives.

The strong political preference for lower taxation and more market-oriented regulation over the past 40 years has meant that intervention of this nature has simply not happened. It might be theoretically possible to compensate those who have lost out from political changes (globalisation and deeper European integration) but it has not happened.

Indeed, the consequences have been even more problematic for the very simple reason that the gainers and losers have not been evenly distributed across the country. The upshot is that there are vast swathes of the UK that have lost out from the process (and the UK has been rather worse at helping such areas than other EU countries).

This process has been exacerbated and intensified by the fact that those who are younger, more mobile and more able to acquire new skills (as the young tend to be in a position to do) have moved to areas that have benefitted from the processes involved in economic integration and globalisation. As a result, those who have remained in areas that have lost out are typically less able to acquire new skills, less mobile, older and more likely to work in (or have retired from) “traditional” industries. It is no accident that these are precisely the attributes that are typical of many Leave voters.

The diffuse benefits of freer trade (mostly felt via lower prices) are typically not sufficient to compensate for the loss of jobs and hollowing out of communities who have lost out to the process. That those same communities have simultaneously been harder hit by spending cuts over the past decade and have also seen levels of inward migration (particularly from post-enlargement EU member states) much higher than hitherto experienced has simply added fuel to that particular fire.

Where London has benefitted enormously from the (admittedly incomplete) growth of the Single Market in services (notably in terms of passporting for the finance sector and associated professional services as well as through things such as the audio-visual media services directive) the same cannot be said for many in Sandwell or Dudley, for example.

Moreover, the reason EU membership is so crucial for a number of industries is due to the pan-EU nature of their supply chains. By definition, this means that a smaller proportion of components are locally sourced. Those working in many traditional industries were almost certainly never going to be part of Tesla's supply chain, nor were they set to hugely benefit from other investment underpinned by membership of the EU.

Somewhat lower vehicle and food prices, lower-cost holidays and the like do not really compensate for the loss of industry to lower-cost eastern European producers (or those countries with whom the EU has signed FTAs, such as South Korea). For many, much as it might damage the country as a whole, voting to leave the EU was not irrational nor was it stupid.

To those who retort that I am simply regurgitating tired tropes about poor leave voters in forgotten and "left behind" communities, I would retort the following. Not all Leave voters were poor, just as few Remain voters are rich. Voting patterns exhibit significant randomness and all winning (and indeed most losing) votes are the result of diffuse coalitions of interests. After all, even in the most pro-European states and communities a significant minority of voters want to leave: witness the fact that almost 40% of voters in Scotland voted to leave the EU.

The reality is that such votes are won and lost at the margins. Had the proportion of Leavers in England been 48% instead of 53% (only 10 percentage points lower), none of the discussions currently taking place would be happening. Insofar as the phenomenon being discussed was a major contributor to that 5% of voters, it is precisely and exactly the reason why the UK is now leaving the EU and why the breakup of the UK in response to that is probable.