

Why the European Union should be Even More Worried about Brexit*

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The discussion about Brexit has focussed on the likely implications both for Britain and for the European Union, in terms of trade and investment links, and also the concerns about the free movement of people.

Concerns about migration have been widely portrayed as the dominant concern that propelled the slight majority vote that turned the result in favour of leaving the European Union in England and Wales in particular. But that would be too simplistic an interpretation, because obviously such concerns are in turn reflective of other changes in material and social conditions that have left people feeling disempowered and alienated from the system.

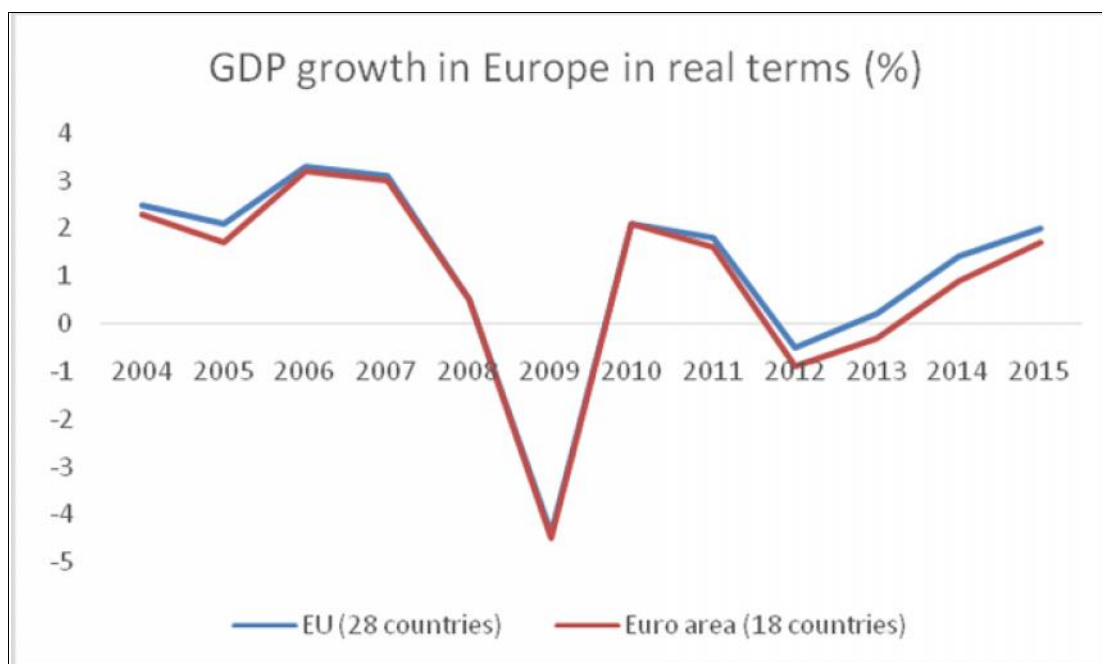
Several commentators have pointed out how such feelings of despair, helplessness and anger could be exploited by unscrupulous politicians with a more explicitly xenophobic and “anti-Europe” agenda. Decades of neoliberal economic policies that have led to the hollowing out of communities in depressed parts of the country and the lack of any attractive employment opportunities for the youth were wrongly attributed only to the EU, generating resentment that was exacerbated by EU policies of open borders that allowed more migrants.

This is not just a failure in terms of managing perceptions; it reflects a more fundamental economic failure of the European Union. And it is this failure that should worry the leadership of the EU, if they do not want the popular disaffection now openly expressed in Britain to translate into equally or perhaps even more devastating responses in other countries, that could even cause a disintegration of the union. This is all the more serious because the UK is not among the worst performers even among the large economies in the EU, and causes for popular unhappiness could be even stronger in other countries.

For several years now, it has been evident that the EU as an economic project has been more or less a failure. This may stem from the very design of the economic integration (flawed, for example, in the enforcement of monetary integration without banking union or a fiscal federation that would have helped deal with internal imbalances) as well as from the template of neoliberal economic policies that it has effectively forced its members to pursue.

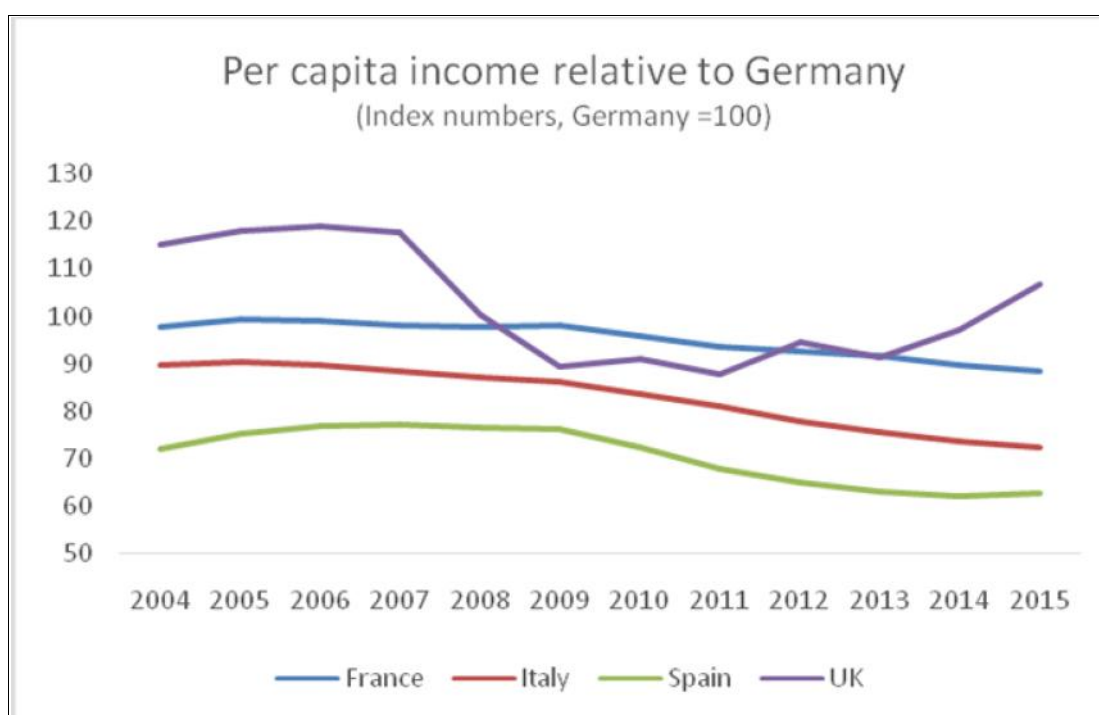
This has been especially evident in the adoption of austerity policies across the member countries, remarkably even among those that do not have large current account or fiscal deficits. As a result, growth in the EU has been sclerotic at best since 2004, and even the so-called “recovery” after 2012 is barely noticeable, with the Eurozone performing even worse than the wider group of 28 countries (Chart 1).

Chart 1.



Source for all charts: www.europa.eu statistical database

Chart 2.



What may be more significant is that even this lacklustre performance has been highly differentiated, with Germany emerging as the clear winner from the formation of the Eurozone. Chart 2 indicates how the other four large economies in the EU have fared in terms of per capita income (in current euros) relative to Germany. Interestingly, the UK performed the best relatively, even though its gap with Germany increased until recently. France, Italy and Spain all experienced deteriorating per capita incomes relative to Germany from 2009 onwards. This, combined with overt and covert fears of German domination, probably added to the barely concealed resentment that is now being expressed in both right-wing and left-wing movements across Europe.

The misguided emphasis on neoliberal policies and fiscal austerity packages has also contributed to the persistence of relatively high rates of open unemployment, which are higher than they were more than a decade ago for EU-28, the Eurozone countries and the big five other than Germany (Chart 3). Open unemployment rates are now higher than they were even in 2010 in France, Italy and Spain – although ironically, they actually fell in the UK, where the rate is now closer to the German rate.

Chart 3.

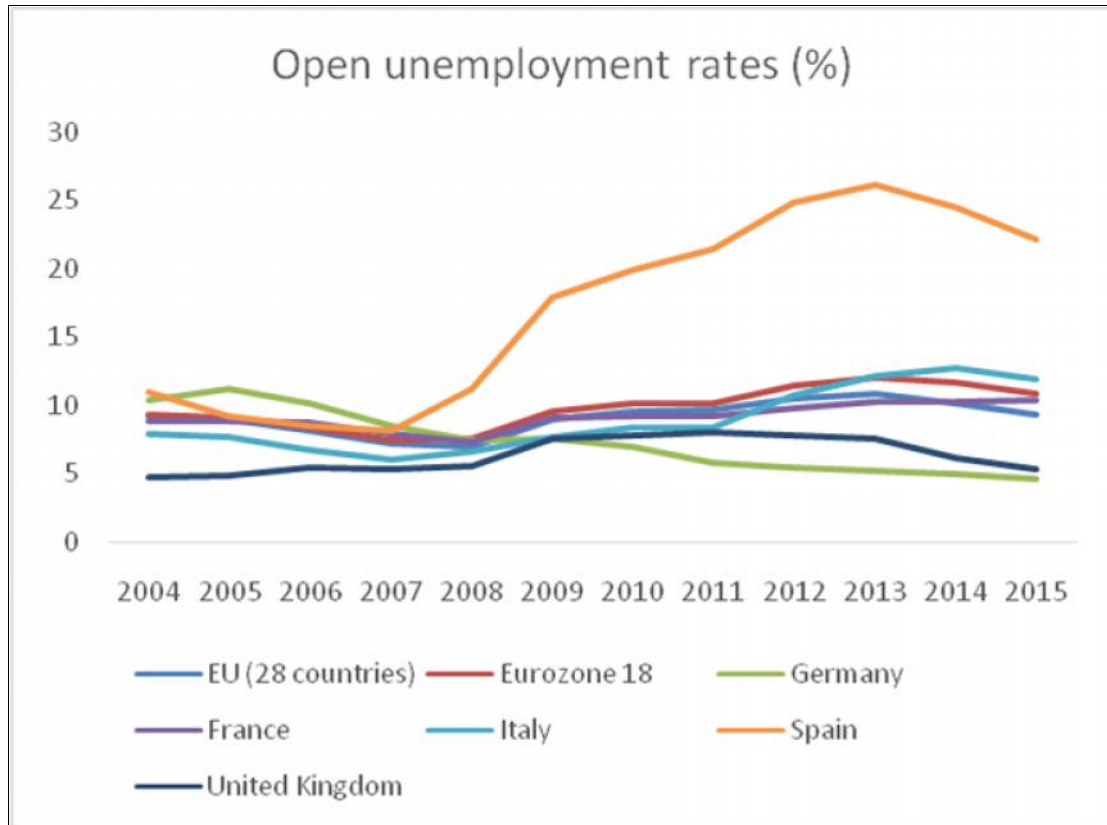
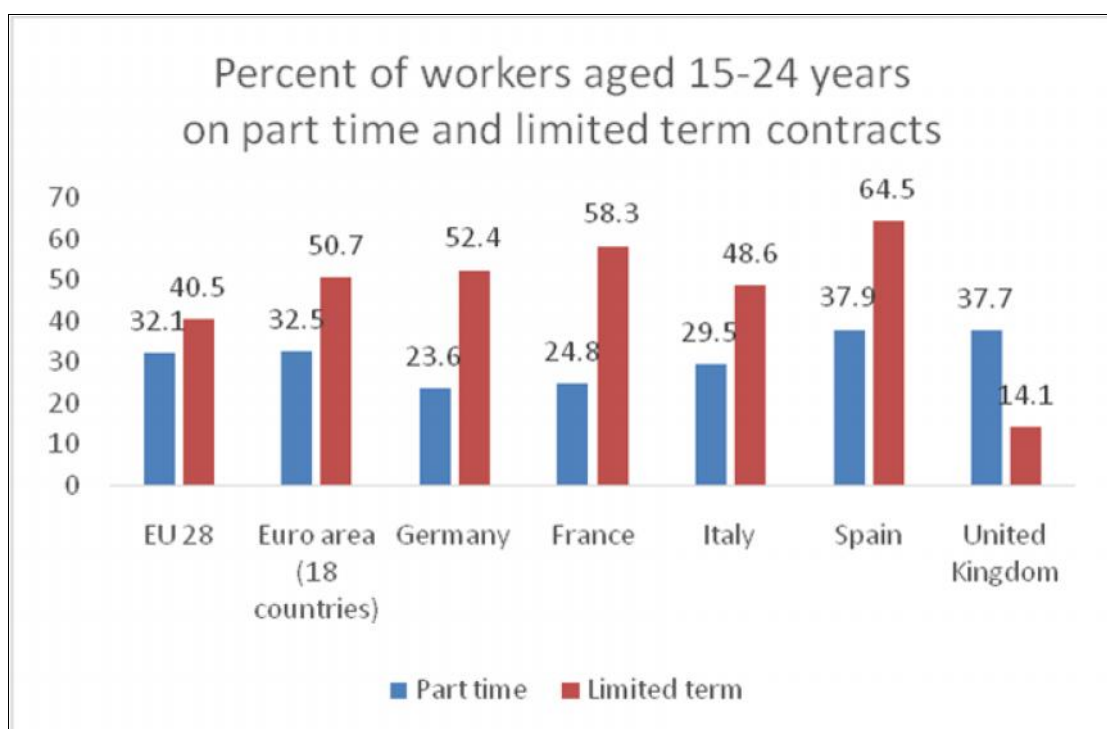


Chart 4.



But even for those who manage to find employment – and particularly for the young amongst them – work contracts are increasingly insecure and short term (Chart 4). “Precarity” is the dominant feature of work contracts for the young in these countries – and once again, conditions in the other large countries (even Germany) are much worse in this respect than in the UK! (The two categories in Chart 4 are not exclusive: it is possible even for part-time work to be on a limited term contract.) Even older workers find themselves at the receiving end of the new flexibility of labour markets, for example in the infamous “zero hours” work contracts in which employers are not required to offer workers any minimum working hours, but workers are forced to be available or “on call” even when they are not actually working, and then get paid only for the exact number of hours that they are called upon for.

[Recent research in the UK](#) indicates that at least 14 per cent of the workforce (around 4.5 million people) are in such insecure work – and the proportion among the young is obviously much higher. But Chart 4 points to a more frightening fact: that such insecure work contracts are even more widespread in the other big European nations. It is worth noting that these proportions have increased substantially since 2004 in all countries. It is a mistake to think that having to deal with such work insecurity is a problem only for those like the youth who have to suffer it: it is also a problem – and therefore a source of unhappiness and anger – for their families, including parents who worry for the future of their children.

So if economic insecurity, and related despair and rage, were major factors in the vote against the European Union in Britain, then these economic pressures seem to exist in even greater magnitude in other major European countries. The implications of this should not be underestimated. All these countries, including Germany, are witnessing the increasing strength of Eurosceptic forces. The union would not survive a similar poll result in any one of them, or even in some of the smaller countries where calls for such a referendum are gaining strength.

To come out of this severe existential crisis, the EU needs to change several things, most of all its underlying approach to economic policies. Instead, it has hardened its positions on deficits in Spain and Portugal and banking problems in Italy. In the current context, this almost seems like the EU leadership has a death wish.

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