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Jayati Ghosh

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Brexit and the Economics of Political Change in Developed Countries

JAYATI GHOSH

Jawaharlal Nehru University, New Delhi, India

ABSTRACT *The economic forces underlying Brexit—and the election of Donald Trump in the US—are similar, but they are also well advanced in many European countries, where much of the population faces similar material insecurity and stagnation. These frustrations can easily be channelled by right-wing xenophobic forces. To combat this, the EU needs to undo some of its design flaws and particularly its adherence to fiscal austerity rules. Only a more progressive and more flexible union based on solidarity of peoples is likely to survive.*

Keywords: globalisation, inequality, wage shares, economic integration, migration

Across the world, people have been watching recent political changes in developed countries with a mixture of bemusement and shock (e.g. Ghosh, 2017). From the vote in the UK in favour of leaving the European Union, to the anointment of Donald Trump as the US President, to the rise and spread of blatantly racist anti-immigration political parties and movements in mainland Europe, it is clear that there are tectonic shifts under way in the political discourse and practice in these countries. It is now obvious that increasing inequality, stagnant real incomes of working people and the increasing material fragility of daily life have all played roles in creating a strong sense of dissatisfaction among ordinary people in the rich countries (see Fullbrook & Morgan, 2017). While even the poor amongst them still continue to be hugely better off than the vast majority of people in the developing world, their own perceptions are quite different, and they increasingly see themselves as the victims of globalisation. This is

Correspondence Address: Jayati Ghosh, The Centre for Economic Studies and Planning, School of Social Sciences, Jawaharlal Nehru University, New Delhi 110 067, India. Email: jayatijnu@gmail.com; jayati@mail.jnu.ac.in

driving the changing political discourse in the developed world, even if the eventual outcomes of political changes and the economic processes they generate are such as to make the material situation of the poor even worse than before.

Inequality Within the Advanced Countries

While growing inequality within the rich countries is now widely recognised, the full extent of very recent economic trends is probably less well known. There are many sources of evidence one might draw on here. However, one of the more recent and comprehensive is provided by the McKinsey Global Institute (2016). The report is based on three sources: income distribution data from 25 developed countries; a dataset providing more detailed information on 350,000 people from France, Italy and the US and the UK; and a survey of 6000 people from France, the UK and the US. The latter also checked for perceptions about the evolution of their incomes, and provides some evidence that goes beyond standard indicators.

The results are probably not surprising in terms of the basic trends identified, but the sheer extent of the change and the deterioration in incomes still comes as a surprise. In 25 advanced economies, between 65% and 70% of households (amounting to around 540–580 million people) were in income segments that experienced flat or falling incomes between 2005 and 2014. By contrast, in the previous period between 1993 and 2005, less than 2% (fewer than 10 million people) faced flat or falling incomes. The situation was much worse in particular countries. In Italy, 97% of the population had stagnant or declining real incomes between 2005 and 2014, while the ratios were 81% for the US and 70% in the UK. This confirms established work by Galbraith (2012), Stockhammer (2013) and, subject to caveats, Piketty (2014).

The results in the report refer to market incomes, and it is true that government tax and transfer policies can change the final disposable income of households, in some cases improving it. Policy matters. Indeed, for the 25 countries taken together, only 20–25% experienced flat or falling disposable incomes. In the US, government taxes and transfers turned a decline in market incomes for 81% of households into an increase in disposable income for nearly all of them. Similarly, government policies to intervene in labour markets also made a difference. In Sweden, the government intervened with measures designed to preserve jobs, so market incomes fell or were flat for only 20%, while tax and transfer policies ensured that disposable income advanced for almost everyone. But in most of the countries examined in the study, government policies were not sufficient to prevent stagnant or declining incomes for a significant proportion of the population, and labour market trends contributed to feelings of insecurity among workers everywhere. While these changes were evident across the board, the worst affected were less educated workers, and particularly the younger ones among them, as well as women, especially single mothers. As is now generally recognised, today's younger generation in the advanced countries is at real risk of ending up poorer than their parents, and in any case already faces much more insecure working conditions.

This material reality is actually quite accurately reflected in popular perceptions. A survey conducted in 2015 of British, French and US citizens used in the McKinsey report confirmed this. Approximately 40% of those surveyed felt that their economic positions had deteriorated. Interestingly it was also such people, as well as those who did not expect the situation to improve for the next generation, who felt most negatively about both trade and migration. More than half of this negative group agreed with the statement, 'The influx of foreign goods and services is leading to domestic job losses,' compared with 29% of those who were categorised in advancing or neutral income groups. They were also twice as likely as those in advancing or neutral income

groups to agree with the statement, 'Legal immigrants are ruining the culture and cohesiveness in our society.' The survey also found that those whose incomes were not improving and who were not hopeful about the future were more likely in France to support political parties such as Front National and in Britain to support Brexit.

One major driver of stagnant worker incomes has been the combination of labour market developments and public policies that have resulted in declining wage shares of national income. The report notes that from 1970 to 2014—with the brief exception of a spike during the 1973–1974 oil crisis—the average wage share across the six countries studied in depth (US, UK, France, Italy, the Netherlands and Sweden) fell by 5 percentage points. In the most extreme case of the UK, it declined by 13 percentage points. These declines in wage shares occurred despite increases in labour productivity, as the productivity gains were either grabbed by employers or passed on in the form of lower prices to maintain external competitiveness.

Such declining wage shares are commonly seen to be the result of globalisation and technological changes that have led to changing patterns of demand for low-skill and medium-skill workers. But even here, it is evident that state policies and institutional relations in the labour market matter (for context see Wade, 2017). In Sweden, where 68% of workers are union members and the government has in place policies that enforce contracts that protect both wage rates and hours worked, the median household received a greater share of output that went to wages, and even got more of the gains from aggregate income growth than households in the top and bottom income deciles over the 2005–2014 period.

By contrast, countries that have encouraged the growth of part-time and temporary contracts experienced bigger declines in wage shares. Once again, this is especially adverse for the young. According to European Union official data, more than 40% of workers aged between 15 and 25 years in the 28 countries of the EU have such insecure and low-paying contracts, while the proportion is more than half for the 18 countries in the Eurozone, 58% in France and 65% in Spain. This is obviously a concern for the young people who have to experience this, but it is as much a source of unhappiness and anger for their parents who worry for the future of their children.

In the meantime, they can all observe the counterpart in terms of rising profit shares in many of these rich countries. Economic processes and government policies increasingly appear to favour plutocratic tendencies. In the US, for example, post-tax profits of firms in the period 2010–2014 reached more than 10.1% of GDP, a level last reached in 1929 just before the Great Depression. Ironically, in the US this favoured the political rise of one of the biggest beneficiaries of this process, Donald Trump who is himself emblematic of such plutocracy.

If economic policies do not change dramatically to favour more good quality employment and better labour market outcomes through co-ordinated fiscal expansions that lift growth in more inclusive ways, things are likely to get even worse. The report projects that even if the previous high-growth trajectory is resumed (an unlikely prospect) at least 30–40% of households would not get income gains over the next decade, especially if technological changes like more automation accelerate. And if the slow growth conditions of 2005–2012 persist, the proportion of households experiencing flat or falling incomes could go to as much as 70–80% by 2025.

Economic Tensions Within Europe

Even before the results of the UK referendum, the European Union faced a crisis of popular legitimacy, especially within some of the largest member countries. The Brexit result, especially in England and Wales, was certainly driven by the fear of more immigration, irresponsibly

whipped up by xenophobic right-wing leaders who now appear uncertain themselves of what to do with the outcome. But it was as much a cry of pain and protest from working communities that have been damaged and hollowed out by three decades of neoliberal economic policies. And this is why the concerns of greater popular resonance across other countries in the EU—and the idea that this could simply be the first domino to fall—are absolutely valid. So the bloc as a whole now faces an existential crisis of an entirely different order, and its survival hinges on how its rulers choose to confront it (see Galbraith, 2016; Patomäki, 2017).

A little history is in order first. The formation of the union itself, from its genesis in the Treaty of Rome in 1957, was as much a result of geopolitical pressure from the US as it was of the grand visions of those who led it. The six founding countries (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) built on the hope of the European Coal and Steel Community that was established in 1950, that greater economic relations would secure lasting peace and prosperity. Somewhat ironically, they were egged on by the US, which in the post Second World War period not only provided huge amounts of Marshall Plan aid to western Europe, but urged the reduction of trade barriers between them to encourage more intra-regional economic activity and provide an effective counter to eastern Europe during the Cold War.

Subsequent expansion of membership has brought the number of member countries in the EU to 28. The UK joined the EU in 1973, along with Ireland and Denmark, followed in the 1980s by Greece, Spain and Portugal, and then by Austria, Finland and Sweden in the 1990s and then some years after the fall of the Berlin Wall, a large intake of 12 central and eastern European countries in the 2000s, with the most recent member being Croatia in 2013 (for the UK, see Guldi, 2017). Over the years, expansion has been accompanied by the push for 'ever greater union': the Maastricht Treaty in 1993 that laid down the ground rules for economic engagement and strengthened the institutional structure of the European Commission and the European Parliament; the creation of the Single Market of free movement of goods, services and people starting from 1994; the Treaty of Amsterdam that devolved some powers from national governments to the European Parliament, including legislating on immigration, adopting civil and criminal laws, and enacting the common foreign and security policy; and even a common currency, the euro, shared by a subgroup of 19 members from 1 January 1999.

Some would say that it is remarkable that a continent with a fairly recent history of wars and extreme regional conflicts could have achieved such a combination of expansion and integration. There is no doubt that, from the start, this was a project of the political and corporate elite of Europe, and the 'voice of the people' was not really taken into account. Yet in many ways it was also a visionary, even romantic, project that could only go as far as it has gone because, even as it increasingly furthered the goals of globalised finance and large corporations, it still contained the (inadequately utilised) potential for ensuring some citizens' rights across the region.

However, as the EU bureaucracy expanded and as the rules—particularly the economic ones—became ever more rigid and inflexible, with the forceful imposition of fiscal austerity measures in countries with deficits and even in countries where there was no real need to do so, the Commission itself and the entire process came to be seen as distant, deaf to people's concerns and impervious to genuine pleas for help, and lacking in a degree of empathy. Germany, the undisputed leader of the bloc, epitomised this sense of rigid adherence to (often nonsensical and contradictory) rules. The lack of consistency in creating a monetary union without a genuine banking union or any solidarity with fiscal federalism has created years of economic depression in some countries and deflationary pressures across the Eurozone and most of the EU. Nowhere has this been more evident than in the tragic case of the Greek economy, but this is also true of

other countries in the periphery that have been forced into austerity measures with little to show in terms of benefit for more than five years now.

So in the expanding but unfinished project that is the European Union, corporate elites have basically achieved their goals and won—as indeed they have been winning in pretty much every region of the world over the past three decades. The implicit project of aiding finance and other large private capital and dismantling the welfare state in these countries has moved ahead.

The result has been not only economic stagnation and continued increases in inequality, but a breakdown of communities and a pervading sense of hopelessness among people across the region, who feel they are no longer able to control their own destiny. Low and receding employment prospects, precarious work contracts, flat or falling real wages, increasing insecurity in material life, reduced access or lower quality of essential public services such as health and education, less social protection, and a general sense of economic decline have become pervasive features, even though these are by and large still prosperous societies (see Morgan, 2017; Pettifor, 2017). All these are indeed not common only to Europe, but are felt in many other parts of the world as a result of economic policies favouring the rich and large capital, and suppressing the rights and aspirations of ordinary people on the grounds that 'there is no alternative'.

In this context, the EU decision to accept (relatively few, around a million) refugee migrants from war-torn regions of West Asia—mostly tragic victims of instability in the region resulting from wars entered into by the governments of the US and the EU themselves—was in some ways the final straw. In some countries like the UK, there was already resentment at the entry of EU citizens from eastern Europe, who were seen to be driving up house rents and lowering wages. But the possibility of particularly Muslim immigration that was cynically used by the Leave campaign in Britain is also a major element of the public response in many other countries like France and even Germany, where other people, rather than corporate capital, are seen as the threat.

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 (see Hobolt, 2016). Several commentators have pointed out how such feelings of despair, helplessness and anger have been exploited by unscrupulous politicians with a more explicitly xenophobic and 'anti-Europe' agenda (see Kagarlitsky, 2017; Worth, 2017). 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.

So the tragedy is that growing alienation of many people who have become the victims of financial globalisation has also left them unable to pick on their real enemy. Instead, the tendency has been to pick on others, who are equally or even more the victims, but can be isolated

and made into scapegoats because of some apparent differences, particularly recent migrants fleeing either enormous physical threats or economic hardship. The vote in England and Wales both indicates and further strengthens an increasingly unpleasant right-wing surge across Europe, in which 'nationalism' is little more than a fig leaf for open or suppressed racism and intolerance to ethnic/cultural differences.

What Next for the EU?

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 (Figure 1).

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. Figure 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.

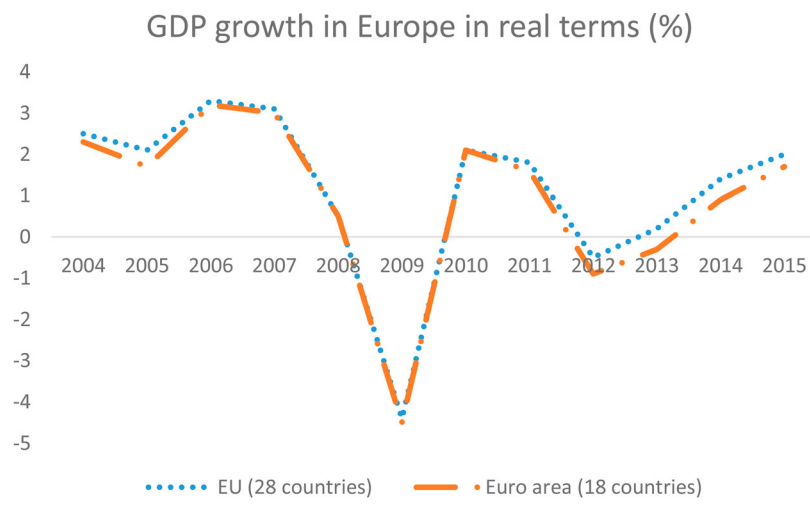

Figure 1. GDP growth in Europe in real terms (%).
Source for all figures: www.europa.eu statistical database.

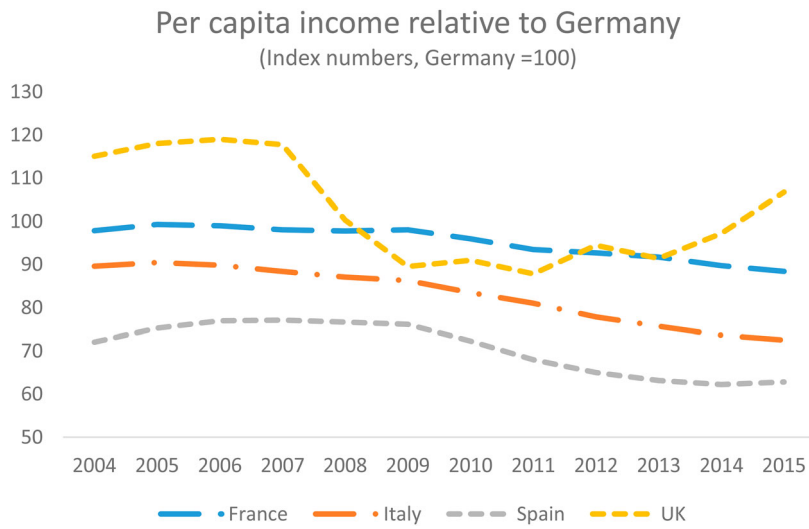

Figure 2. Per capita income relative to Germany (Index numbers, Germany = 100).

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 (Figure 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.

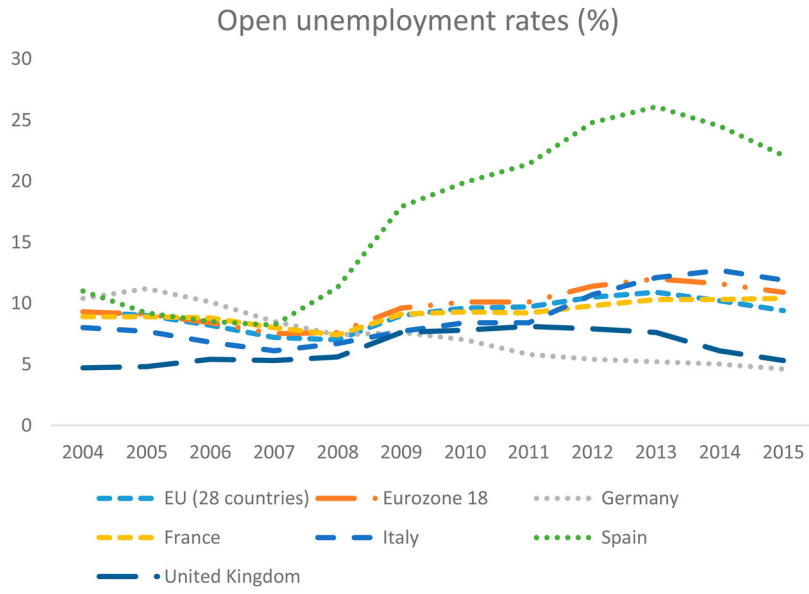

Figure 3. Open unemployment rates (%).

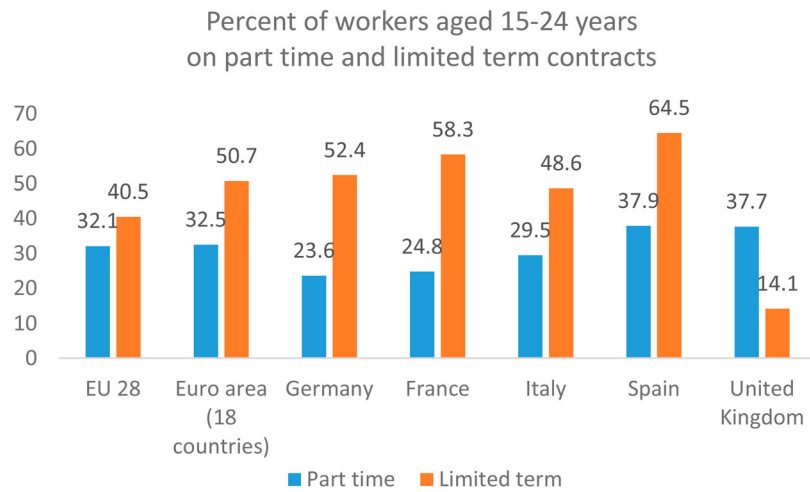

Figure 4. Percent of workers aged 15–24 years on part time and limited term contracts.

But even for those who manage to find employment—and particularly for the young amongst them—work contracts are increasingly insecure and short term (Figure 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 Figure 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 (Citizens Advice, 2017) indicates that at least 14% of the workforce (around 4.5 million people) are in such insecure work—and the proportion among the young is obviously much higher. But Figure 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. And ignoring democratic expression at this point in time in Europe is fraught with risk. There is already a significant movement against immigration and against the EU, driven again by anger, despair and frustration at economic trends, that is growing across different member countries. If a clear result

in this referendum is blatantly denied (despite the best intentions of those working to have a second referendum) or leads to a delayed and watered down response without Britain actually leaving the EU, this will fuel an even greater right-wing response and further strengthen this movement. Then the right-wing surge has the potential to become a veritable tsunami across Europe.

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. The immediate response appears to be a closing of ranks and circling of the wagons, with strict terms applied to the UK as punishment and also deterrence to other would-be leavers. But stronger political union with much greater federal powers no longer seems to be on the table. Instead, there are also likely to be calls for greater flexibility, with respect to both economic policies and migration. Donald Tusk, the Polish President of the European Council, has already warned that ordinary European citizens do not share the enthusiasm of some of their leaders for 'a utopia of Europe without nation states, a utopia of Europe without conflicting interests and ambitions, a utopia of Europe imposing its own values on the external world, a utopia of Euro-Asian unity'. It is likely that there is much less political appetite for greater integration, for example, in a banking union, and this will make other forms of economic union even less effective, especially in countries experiencing continued economic difficulties and consequent social unrest.

So which way will the European Union go now? The European Union as it exists today is unstable and probably unsustainable. But it will be tragic indeed if it collapses under the weight of its own contradictions only to yield to the petty and xenophobic forms of national neoliberalism that are currently the most forceful alternative to neoliberal economic integration.

What Europe and the world require are more internationalist alternatives based on popular sovereignty, solidarity, the improvement of workers' conditions and the rights of citizens. Some of the voices calling for alternative policies based on less fiscal austerity and more economic and social solidarity are becoming louder—but they still need much more political traction if they are to make a difference. There are incipient progressive movements like Diem25, but such movements need to expand and be embraced by many more people across the continent, if the EU is to be saved from itself. Only a more progressive and flexible union based on the solidarity of peoples can show the way forward; the current more rigid format may be too brittle to survive.

Disclosure Statement

No potential conflict of interest was reported by the author.

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Jayati Ghosh is Professor of Economics at Jawaharlal Nehru University, New Delhi, India. She is also Executive Secretary of International Development Economics associates (www.networkideas.org). She is the co-author of *Demonetisation decoded: A critique of India's currency experiment* (Rouledge 2017) and co-editor of *Handbook of alternative theories of economic development* (Edward Elgar, 2016) among many other works.