

Brexit - another economics crisis?

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Outside the monetarist and free-marketeer camps, few UK economists advocated Brexit (the few notable exceptions included Cardiff University's Patrick Minfordⁱ). In fact, the UK's most prominent independent economic research centres - the National Institute of Economic and Social Research, the Institute for Fiscal Studies and the Centre for Economic Performance - went as far as releasing a joint statement on the eve of the vote. It rebutted or at least questioned some of the claims made by campaigners on both sides as to the expected effects of Brexit.ⁱⁱ Verdicts were clear: claims as to the damage done by EU membership and the benefits of leaving the Union were exaggerated. Yet their views appeared to have made little difference. Why?

When challenged in a TV interview to respond to economists' warnings about Brexit, Michael Gove MP - the now Conservative leadership contender and chair of the Vote Leave campaign - arguable reflected a strong current of public opinion when he replied that "people in this country have had enough of experts".ⁱⁱⁱ

In the end, 52 per cent of the voting population (about a third of the eligible electorate) appeared to agree with Gove - "it's NOT the economy, stupid!" Or was it?

Arguments since then have focus on the post-truths championed by Brexit supporters, while a recent spate of racist abuse appeared to have given credibility to assertions that petty nationalism and xenophobia also played their part. None of this casts a good light on the British – or rather the English and Welsh nations.

So what about the role of economics that few appeared to have listened to? The economic arguments advanced were decidedly macro-economic or, as Gove argued, reflecting the views of those that had benefited from the free movement of labour and capital that the EU had delivered. But, in fact, that was also true for the Leave campaigners' contributions. Their arguments were cast in macro-economic, one-nation language - even when they were critical of the free movement idea^{iv}. In the end, the referendum highlighted geographic, social and demographic (e.g., 'young versus the old') divisions. It brought to light what the macro-economic analysis had for some time overlooked (if not ignored), namely spread – or more specifically, that below the mean or median, at the lower end of the social and income distribution, the experience of immigration can look vastly different from the macroeconomic perspectives had presented.^v

These were not new arguments or discoveries. But as was the case in the run-up to the GFC, theoretically and empirically nuanced arguments – and indeed warnings – were not heard. In the two or so years prior to Lehman Brother's collapse, a minority of economists and social policy researchers warned about subprime mortgages flooding the UK market - to no avail. This time again, large sways of the public face of UK macroeconomics failed to recognise the social divisions that London-centric economic policy had cemented over recent decades.^{vi} It consolidated a two-nation capitalism that prospers, albeit inequitably, on free-market terms in England's South-East, but disproportionately relies on redistribution (via social security and public sector job relocation) elsewhere supporting battling (and sometimes struggling) enterprise. Politically or economically, this hasn't worked.

ⁱ <http://www.economistsforbrexit.co.uk/>.

ⁱⁱ <http://www.niesr.ac.uk/blog/leaving-eu-would-almost-certainly-damage-our-economic-prospects#.V3m6LPI96Uk>.

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- iii <https://www.youtube.com/watch?v=GGgiGtJk7MA>.
- iv <https://economistsforbrexit.squarespace.com/the-economics-of-unskilled-immigration>.
- v <https://www.gov.uk/government/publications/impacts-of-migration-on-uk-native-employment-an-analytical-review-of-the-evidence>.
- vi <http://www.theguardian.com/politics/commentisfree/2016/jun/24/divided-britain-brexite-money-class-inequality-westminster>.