

Brexit in historical perspective

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Une brève histoire du *Br*exit



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Une brève histoire du Brexit



A PELICAN BOOK

A Short History of Brexit

Kevin O'Rourke





The Tory Party has a history

- 1881: Fair Trade League – no trade deals “unless terminable at a year’s notice”; tariffs on foreign food; manufactured tariffs unless “fair exchange”
 - 1885 election: “Many found it wiser to declare themselves free-traders and opposed to any reversal of the fiscal legislation of 1846. Others attempted to gain fair-trade support in the constituencies by a frank espousal of that cause. Still others attempted to straddle the issue”
1940)

The Tory Party has a history

- 1903: Imperial Preference
 - “a commercial union which, in some shape or another, must precede or accompany closer political relations, and without which, as all history shows, no permanent co-operation is possible”
 - Balfour: if government were to fall “I, and I suspect many others of our colleagues, would be in the embarrassing, and indeed, somewhat ludicrous position, of having to say that on the point which divided us, we had not made up our *own* minds, and could not, therefore, pretend to give a decided lead to anyone else.

The Tory Party has a history

- 1903: Imperial Preference
 - “fiscal freedom”: negotiate while disregarding free trade doctrine ; tariffs shouldn’t have protection as “primary object”
 - “verbal formulas as a means of resolving genuine conflicts of belief”
 - His “success in isolating the Duke of Devonshire from the doctrinaire free traders in the Cabinet rested in part on the Duke's inability to understand the precise differences between Balfour's position and Chamberlain’s. In this, the Duke was in distinguished company, which included many other leading politicians, members of the public, and even the Monarch himself” (Coats 1968)

But so does the EU

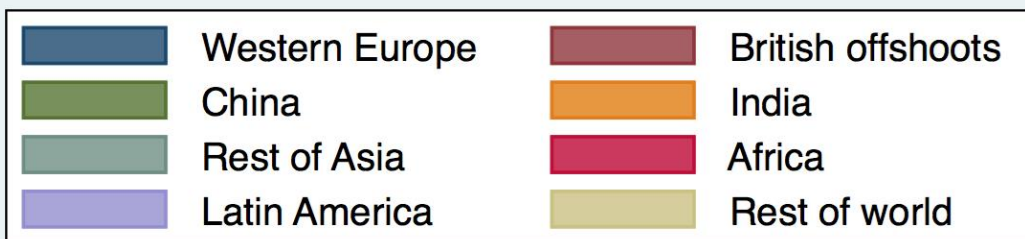
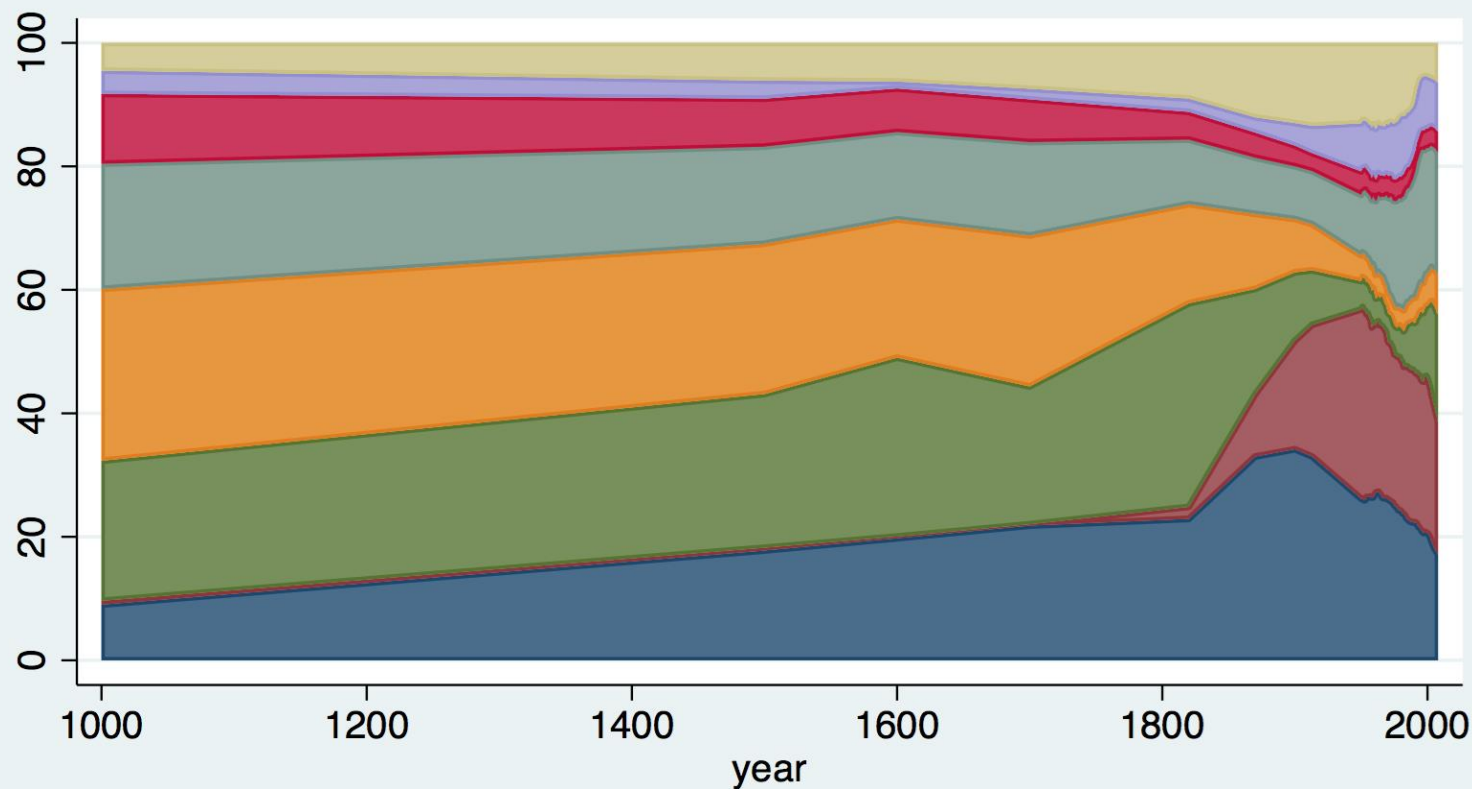
“We must ensure that our commemoration [of the First World War] does not give any support to the myth that European integration was the result of the two World Wars”

(memo to David Cameron)

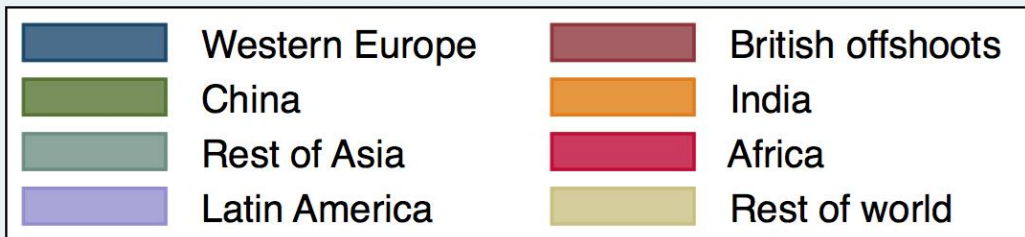
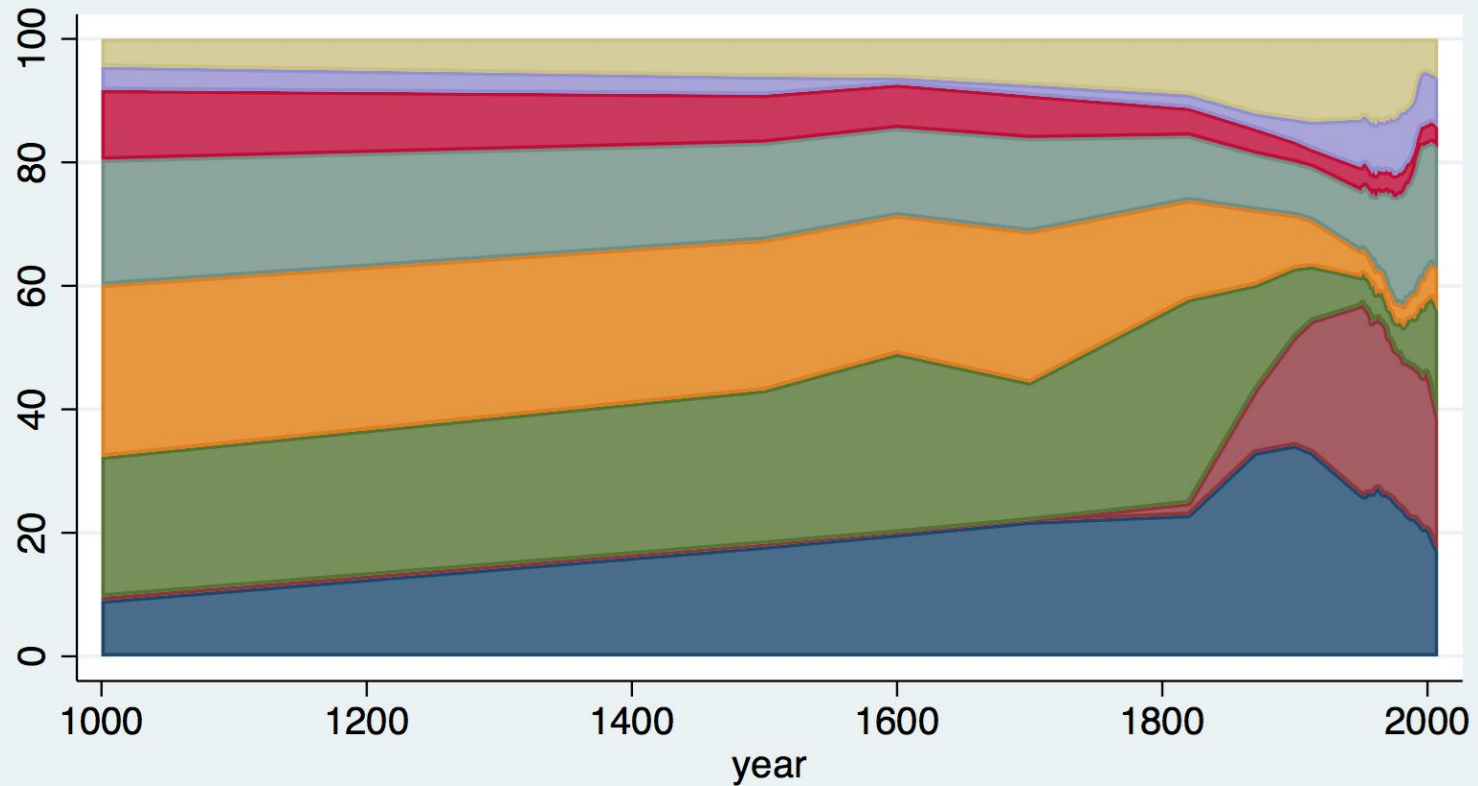
Why is the EU supranational?

- “The profound pooling of sovereignty that is a crucial feature of the European Union permits unprecedentedly deep cooperation, which brings benefits. But it also means that when countries are in the minority they must sometimes accept decisions they do not want, even affecting domestic matters with no market implications beyond their borders. And when such decisions are taken, they can be very hard to change. So the British electorate made a choice. They chose the power of domestic democratic control over pooling that control” (Theresa May, September 2017)

Shares of world GDP



And Europe controlled 84% of earth's surface in 1914...



Maurice Faure, 5 July 1957

- You see, my dear friends, we still maintain the fiction that there are four Great Powers in the world. Well, there are not four Great Powers, there are only two: America and Russia. There will be a third at the end of the century: China. And it is up to you as to whether or not there will be a fourth: Europe

Post-1945: lessons of the 1930s

- Keynesian macroeconomics, welfare states, corporatist growth strategies, mixed economies
- Agriculture
 - 26% of male French employment in 1954; the figure was 42% in Italy in 1951
- How to combine benefits of trade with a protective state?
 - “The problem genuinely was how to construct a commercial framework which would not endanger the levels of social welfare which had been reached . . . The Treaties of Rome had to be also an external buttress to the welfare state” (Milward 2000)

Treaty of Rome 1957

- *ARTICLE 118*
- .. the Commission shall have the task of promoting close co-operation between Member States in the social field, particularly in matters relating to:
 - employment;
 - labour law and working conditions;
 - basic and advanced vocational training;
 - social security;
 - prevention of occupational accident, and diseases;
 - occupational hygiene;
 - the right of association, and collective bargaining between employers and workers.

Treaty of Rome 1957

- *ARTICLE 119*
- Each Member State shall ... maintain the application of the principle that men and women should receive equal pay for equal work.
- *ARTICLE 120*
- Member States shall endeavour to maintain the existing equivalence between paid holiday schemes.

Protocol to Treaty of Rome

- Les États membres estiment que l'établissement du marché commun entraînera..une situation dans laquelle la base au-delà de laquelle sont rémunérées les heures supplémentaires et le taux moyen de majoration pour ces heures dans l'industrie correspondront à ceux existant en France, selon la moyenne de l'année 1956.
- A défaut de réalisation de la situation ci-dessus...la Commission est tenue d'autoriser la France à prendre, à l'égard des secteurs industriels affectés par l'inégalité dans le mode de rémunération des heures supplémentaires, des mesures de sauvegarde dont elle définit les conditions et modalités, sauf dans le cas où...l'augmentation moyenne du niveau des salaires dans les mêmes secteurs d'autres États membres excéderait, par rapport à la moyenne de l'année 1956, celle intervenue en France, d'un pourcentage fixé par la Commission avec l'approbation du Conseil statuant à la majorité qualifiée.

Treaty of Rome 1957

- (c) the abolition, as between Member States, of obstacles to freedom of movement for persons, services and capital;
- (d) the adoption of a common policy in the sphere of agriculture;
- (e) the adoption of a common policy in the sphere of transport;
- (f) the institution of a system ensuring that competition in the common market is not distorted;
- (i) the creation of a European Social Fund in order to improve employment opportunities for workers and to contribute to the raising of their standard of living;
- (j) the establishment of a European Investment Bank to facilitate the economic expansion of the Community by opening up fresh resources;

UK responses: 19th century legacies



BUY
IRISH FREE STATE
BACON



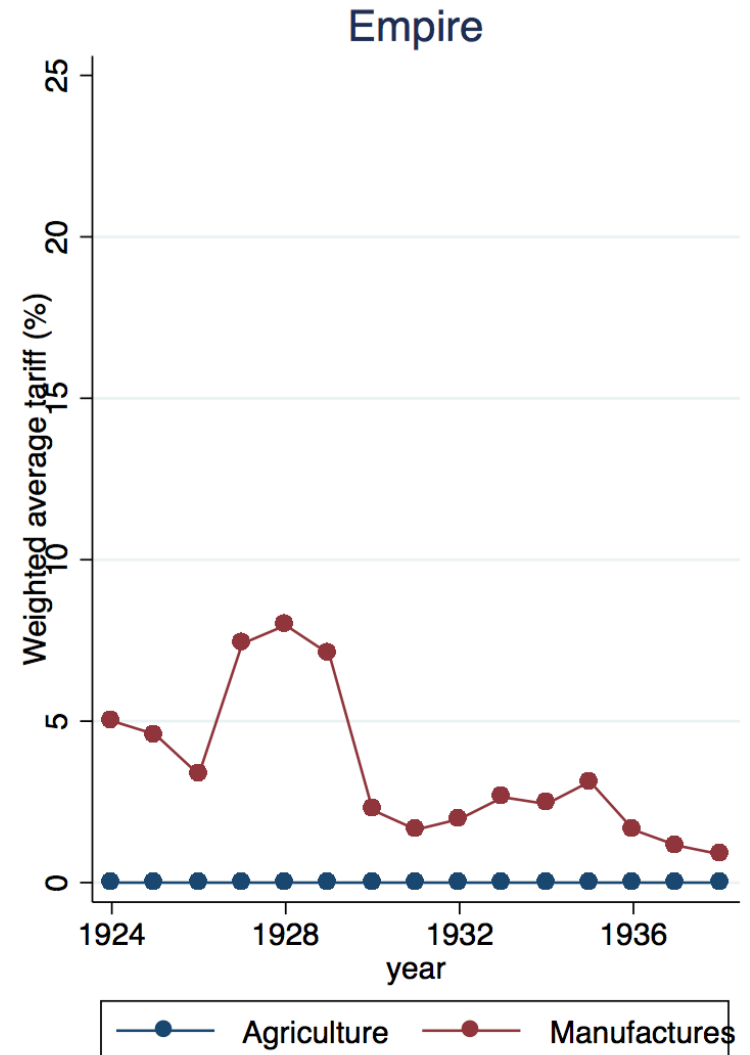
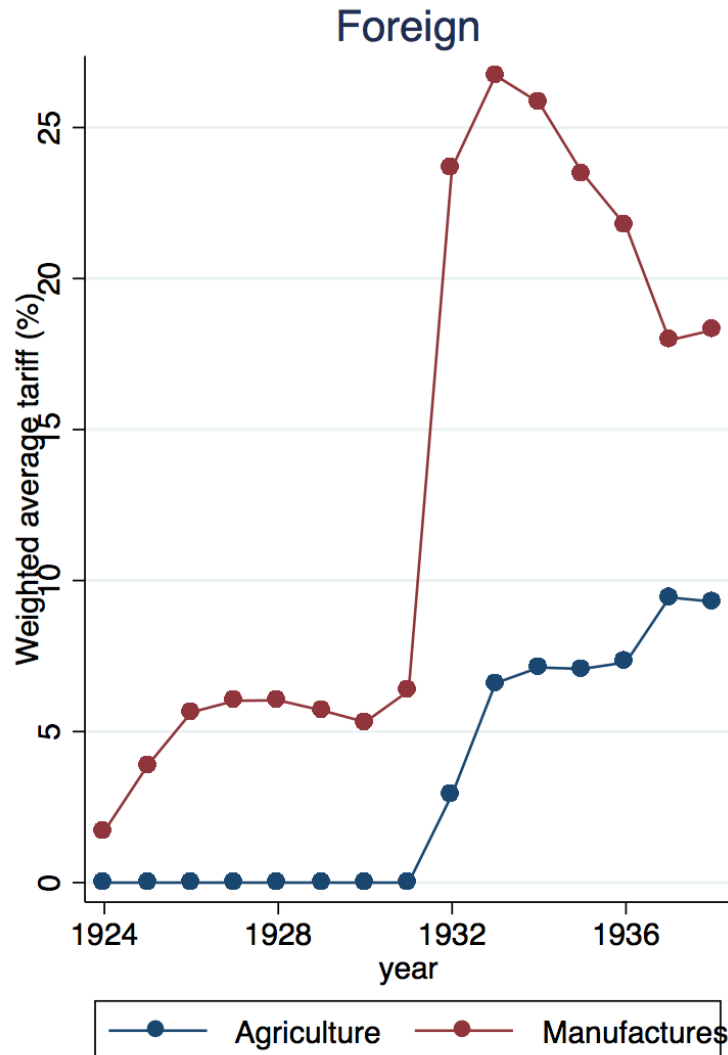
BUY
AUSTRALIAN
SULTANAS



UK responses: 19th century legacies

- October 1931: National government returned to power and Neville Chamberlain introduces Imperial Preference

Weighted tariff rates



De Bromhead et al. (AER, 2019)

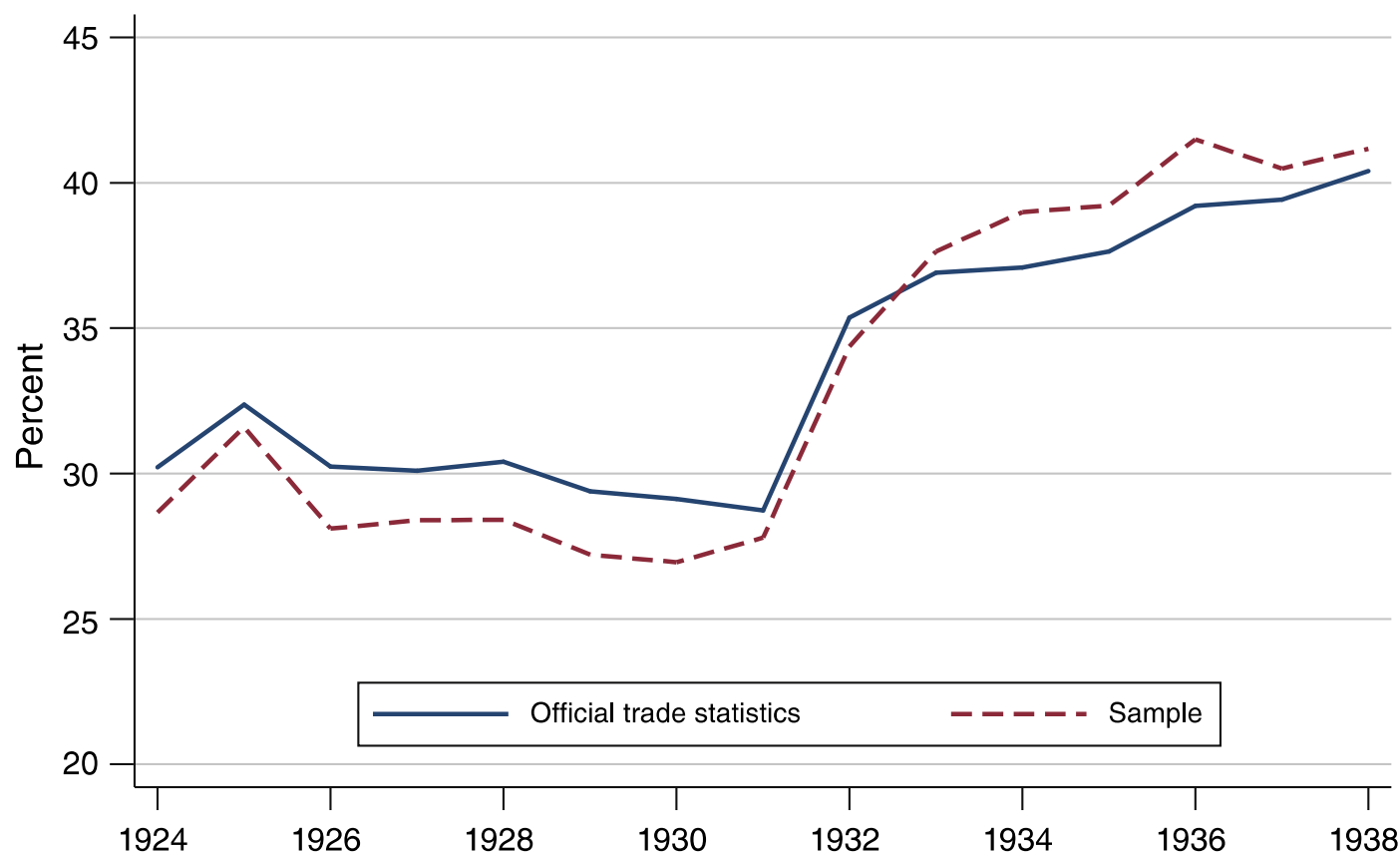


FIGURE 2. TOTAL AND SAMPLE EMPIRE SHARE OF UK IMPORTS, 1924–1938

Source: Statistical Office, H.M. Customs and Excise Department (1929, 1935, 1939)

Growing dependence on 'blocs'

TABLE 8.5. The share of formal and informal empire trade, 1929–38 (percent).

Trade of	Share of	In imports			In exports		
		1929	1932	1938	1929	1932	1938
U.K.	British Commonwealth, colonies, protectorates, etc.	30.2	36.4	41.9	44.4	45.4	49.9
U.S.	Philippines	2.9	6.1	4.8	1.6	2.8	2.8
France	French colonies, protectorates, and mandated territories	12	20.9	25.8	18.8	31.5	27.5
Belgium	Belgian Congo	3.9	3.8	8.3	2.6	1.3	1.9
Netherlands	Netherlands overseas territories	5.5	5	8.8	9.4	5.9	10.7
Italy	Italian colonies and Ethiopia	1.5	1.1	1.8	2.1	3.6	23.3
Portugal	Portuguese overseas territories	7.9	10.4	10.2	12.7	13.9	12.2
Japan	<i>Korea and Formosa</i>	12.3	26.2	30	16.8	21.6	32.9
	<i>Kwantung</i>	6	4	1.6	4.8	6.8	13.7
	<i>Manchuria</i>	1.9	2.7	9	2.5	1.5	8.1
	<i>Rest of China</i>	5.8	4	4.4	10.9	7.38	
	Total Japanese sphere of influence	26	36.9	45	35	37.2	62.7
Germany	<i>Bulgaria, Greece, Hungary, Romania, Turkey, Yugoslavia</i>	4.5	5.5	12	5	3.9	13.2
	<i>Latin America</i>	12.2	11.2	15.6	7.8	4.3	11.5
	Total German sphere of influence	16.7	16.7	27.6	12.8	8.2	24.7

Source: League of Nations (1939, pp. 34–35).

Declining interwar multilateralism

- The declining multilateralism of the time was regarded by contemporaries as one of the most dangerous features of the period:
 - “it is now so obvious as to hardly need statement that bilateral trade took on aggressive and destructive aspects as international rivalries were sharpened in the era of what is now known as pre-belligerency” (Condliffe, 1941, p. 287)

Atlantic Charter, August 1941



Atlantic Charter, August 1941

Fourth, they will endeavor, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity;

GATT Article I (General Most-Favoured Nation Treatment)

- With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation...**any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.**

GATT Article XXIV

- “the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements...Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area.”

GATT Article XXIV

- 8 (a) A **customs union** shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that
- i) duties and other restrictive regulations of commerce...are eliminated with respect to **substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and,**
- ii) **...substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;**

GATT Article XXIV

- A **free-trade area** shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce ... are eliminated on **substantially all the trade between the constituent territories in products originating in such territories**

UK responses: 19th century legacies

- October 1931: National government returned to power and Neville Chamberlain introduces Imperial Preference
- Post-1945: Imperial Preference still in place, cheap food policies
- 1947: “a continental customs union had little economically in its favour other than the damage which would be caused by being excluded from it”

1956: Plan G

- UK proposes industrial-only free trade area for the OEEC as a whole including the EU
 - Can keep Imperial Preferences
 - Can get access to Continental markets for UK manufactured exports
 - Can keep existing agricultural policies

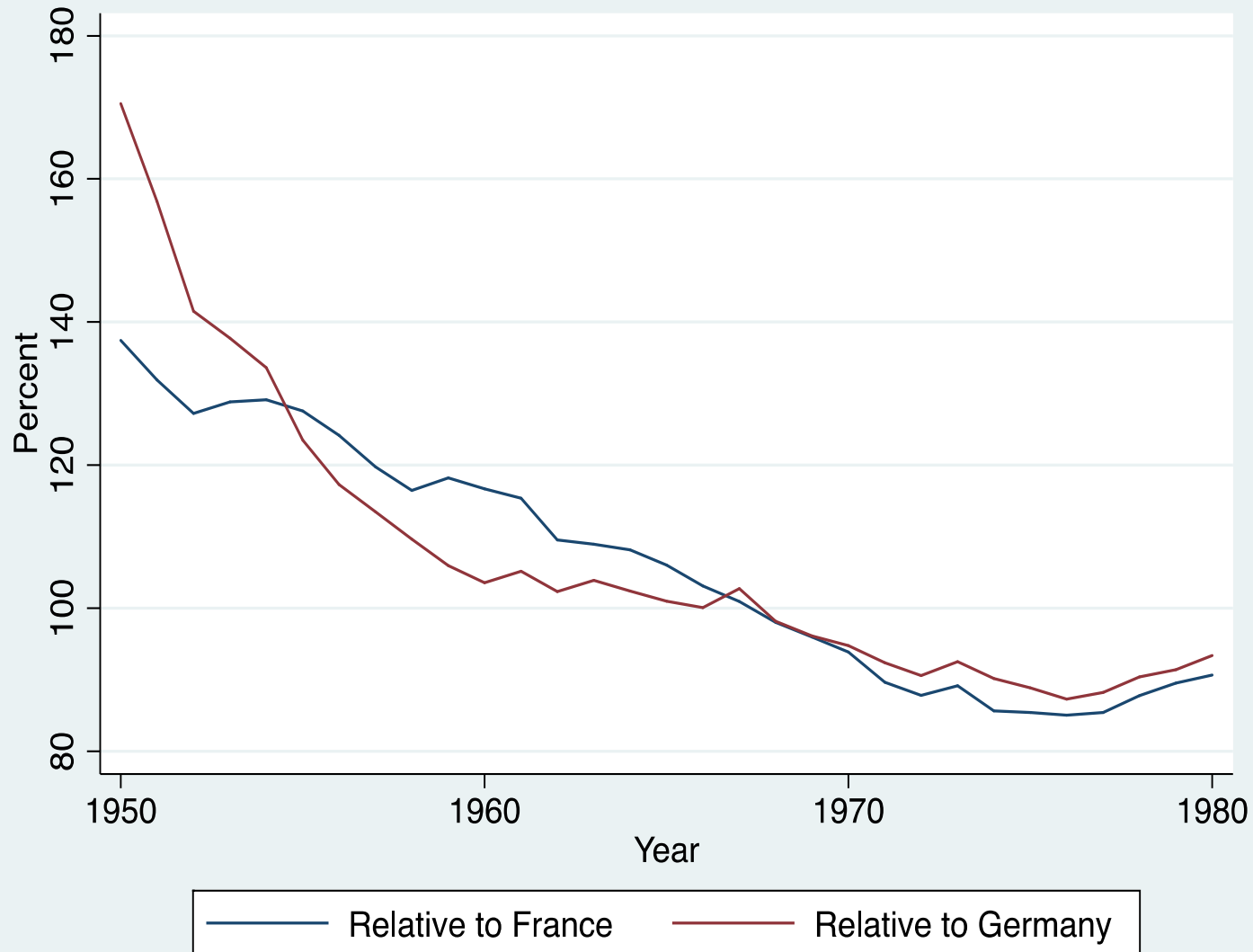
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 - “the possibility of U.K. co-operation would be so welcome that we should be able to enter the plan more or less on our own terms”
 - “Under its terms, the British government could have its cake and eat it, too, aligning itself with its European neighbours without in any way distracting from its Commonwealth relations” (Grob-Fitzgibbon 2016)

UK relative GDP per capita



Single Market (“1992 programme”)

- Cockfield White Paper 1985: eliminate internal frontiers (“**physical** barriers”) by eliminating **technical** and **fiscal** barriers
- “The reason for getting rid entirely of physical and other controls between Member States is not one of theology or appearance, but the hard practical fact that the maintenance of any internal frontier controls will perpetuate the costs and disadvantages of a divided market”
- "It is the physical barriers at the customs posts, the immigration controls, the passports, the occasional search of personal baggage, which to the ordinary citizen are the obvious manifestation of the continued division of the Community."

We now have a handy list of SM regulations for goods...

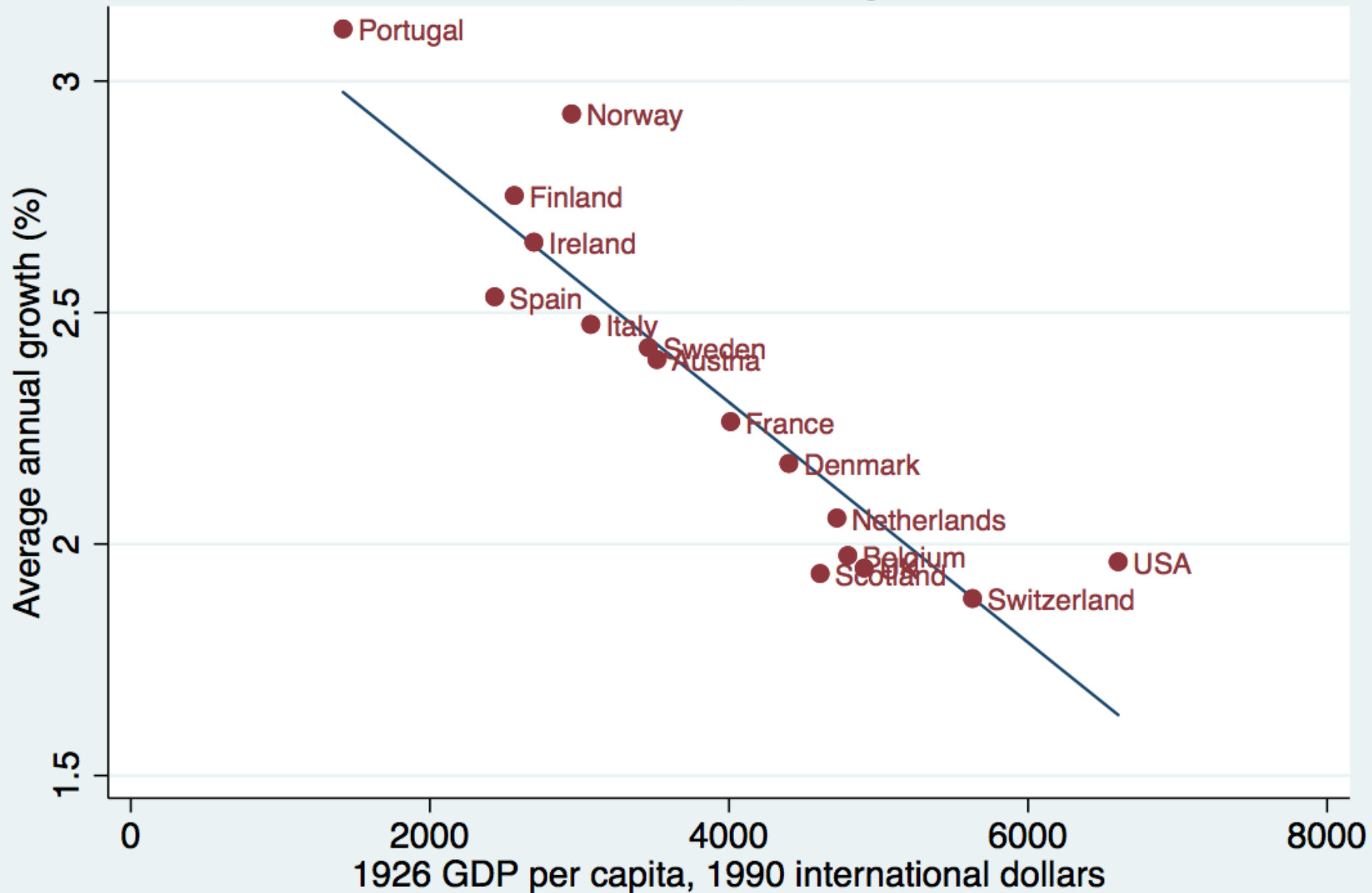
- Article 6.2 of Protocol: “The provisions of Union law listed in Annex 5 to this Protocol shall also apply, under the conditions set out therein, to and in the United Kingdom in respect of Northern Ireland.”
- Annex 5: 69 pages listing the regulations and directives needed for frictionless trade
- E.g. Directive 2009/48/EC: safety of childrens’ toys. Among many other things sets limits on amount of “arsenic, cadmium chromium VI, lead, mercury and organic tin”, spells out traceability requirements...

EU history shaped attitudes towards negotiations

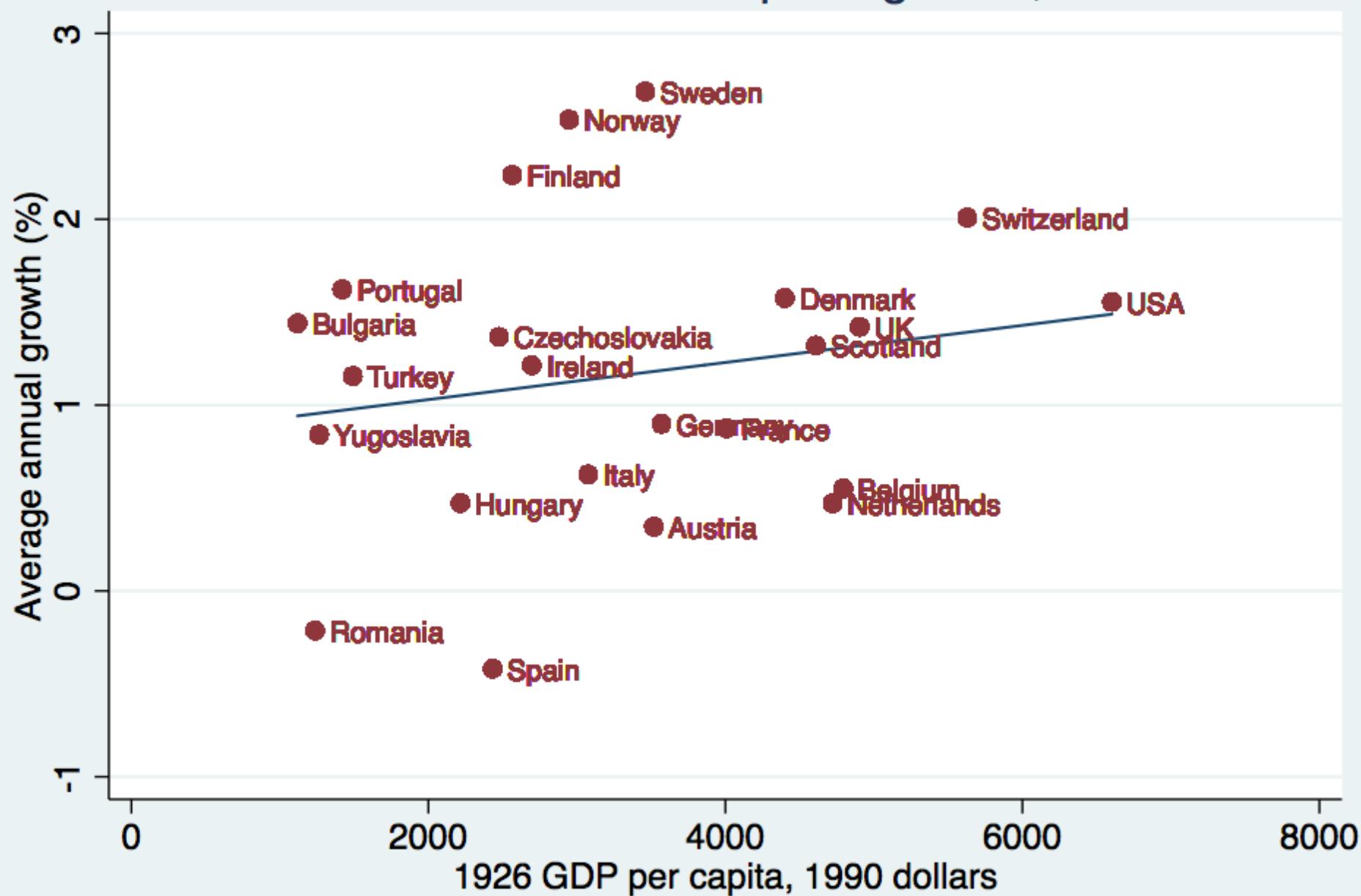
- The Single Market an astonishing achievement and there were only 12 members in those days..
- Need to retain control of Single Market rules (not so much taking back, as retaining control)
- Level playing field

Ireland also has a history...and an
economic history...

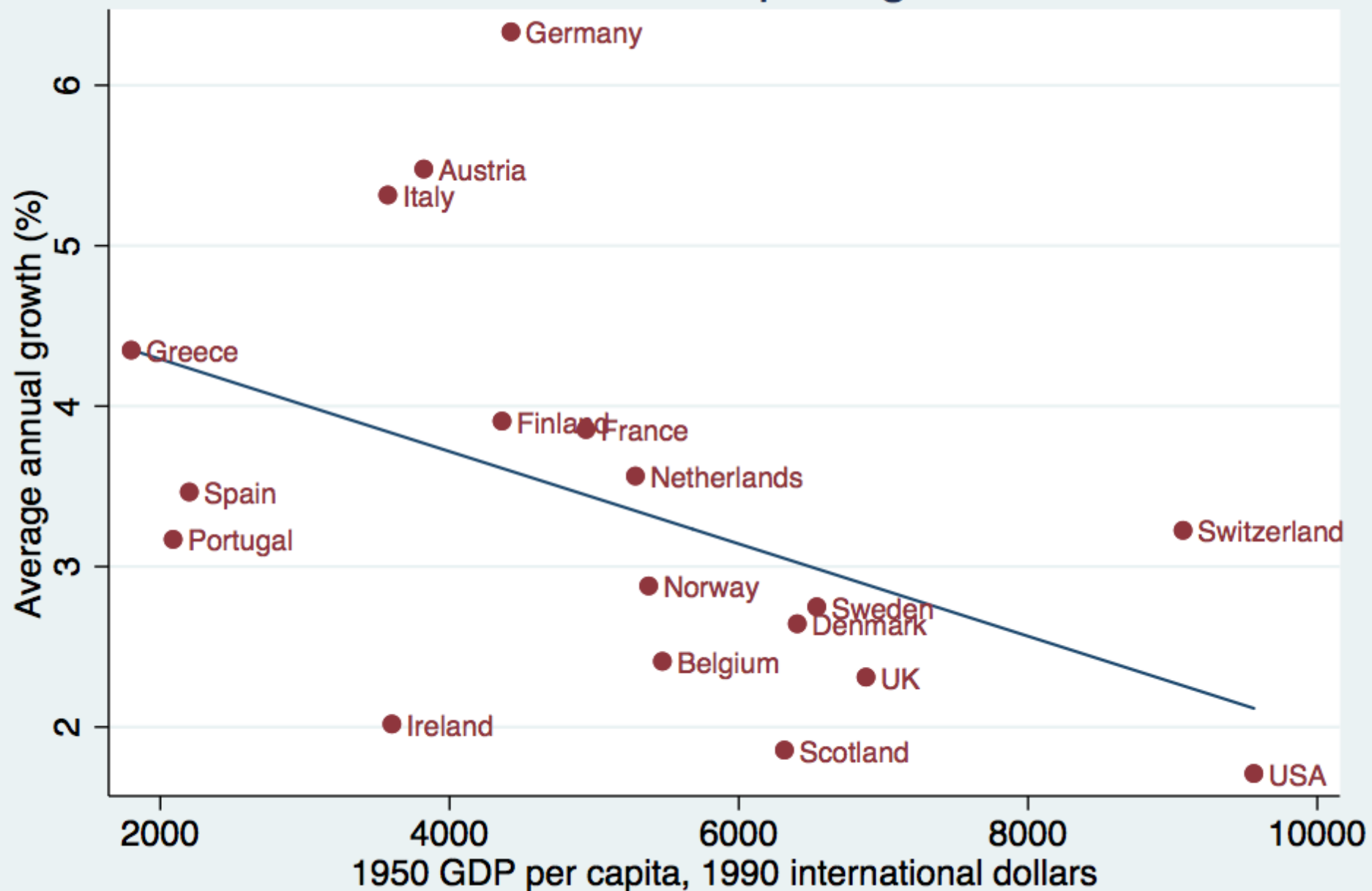
Initial income and subsequent growth, 1926-2001



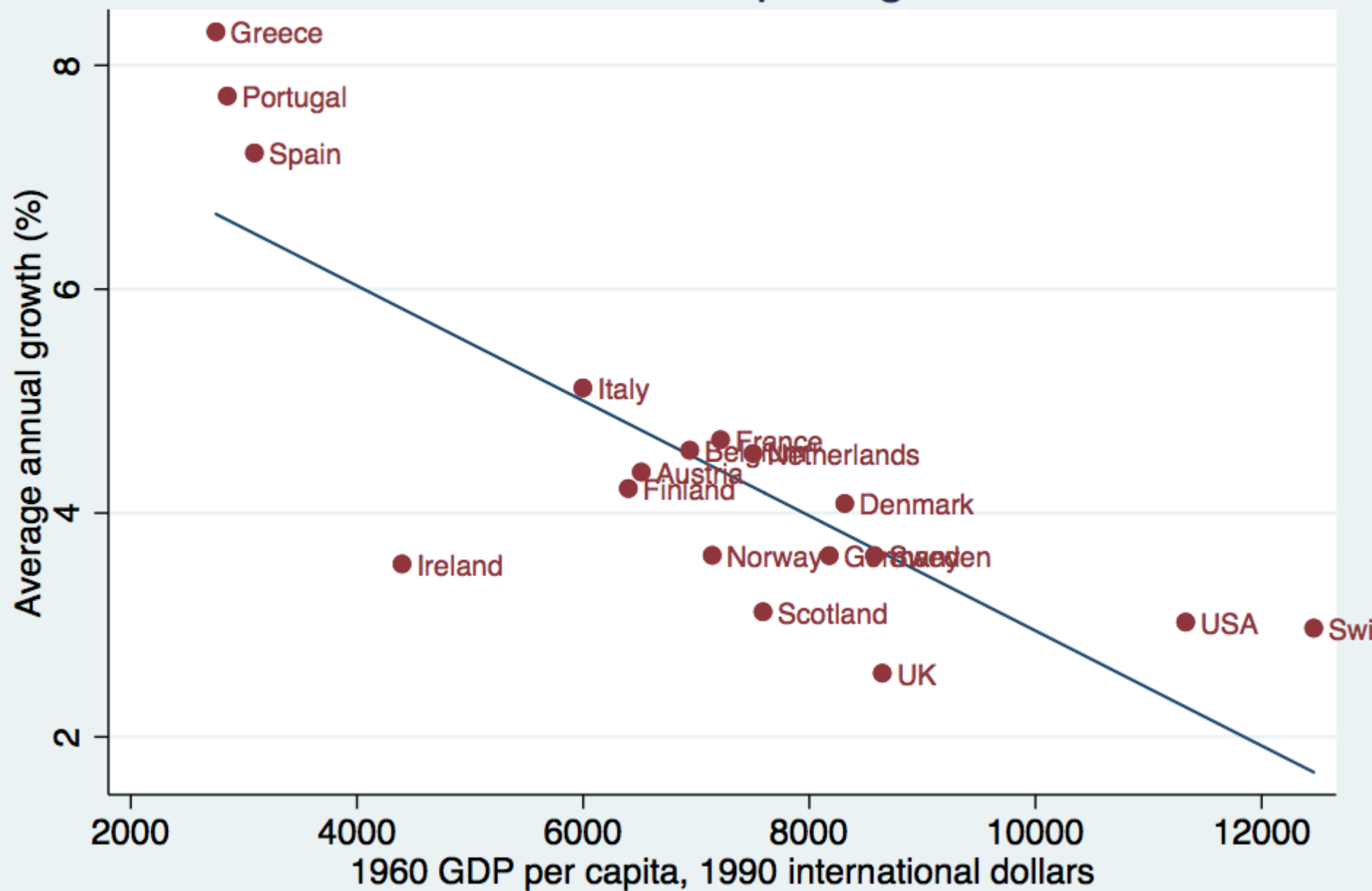
Initial income and subsequent growth, 1926-50



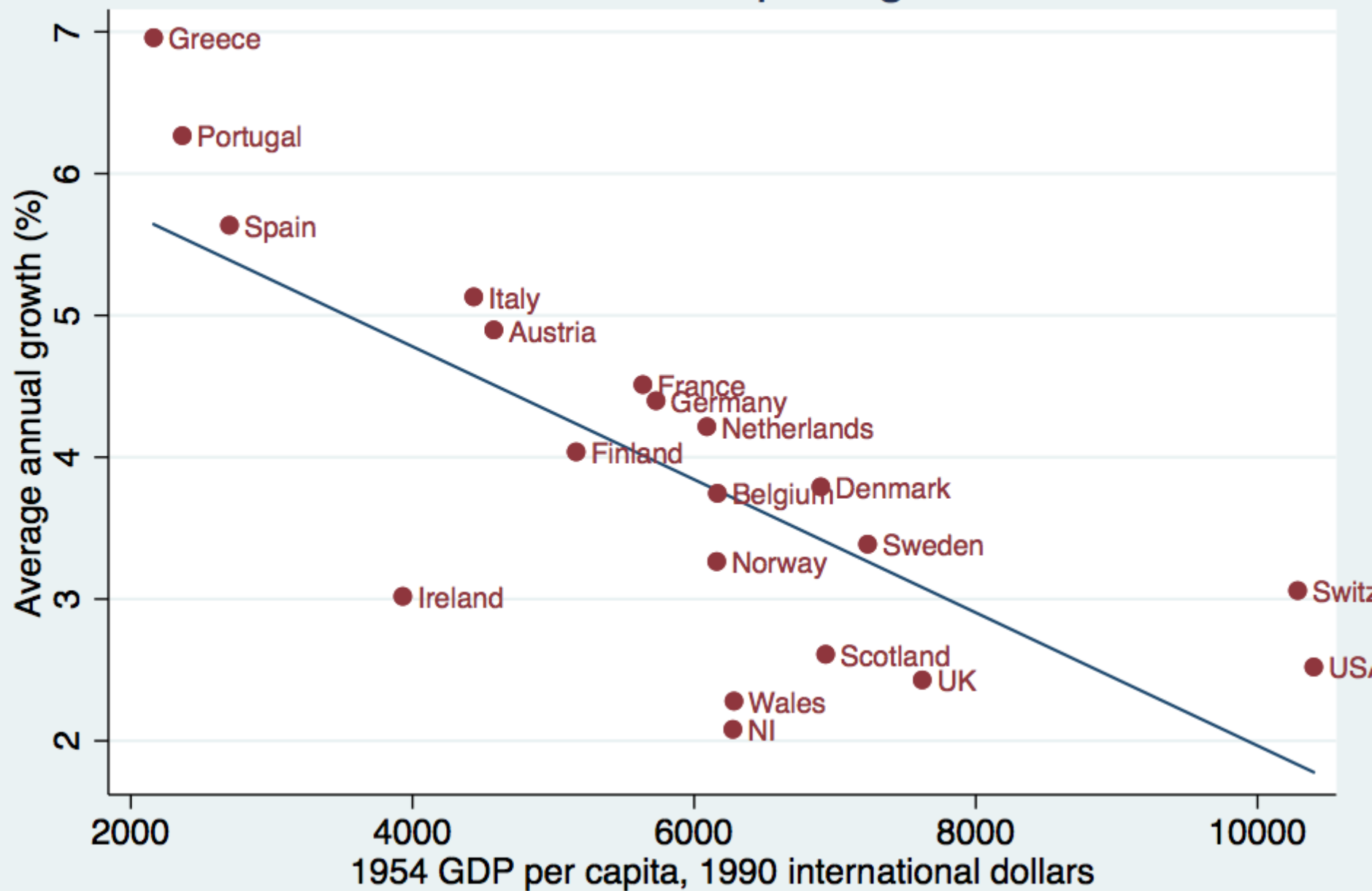
Initial income and subsequent growth, 1950-60



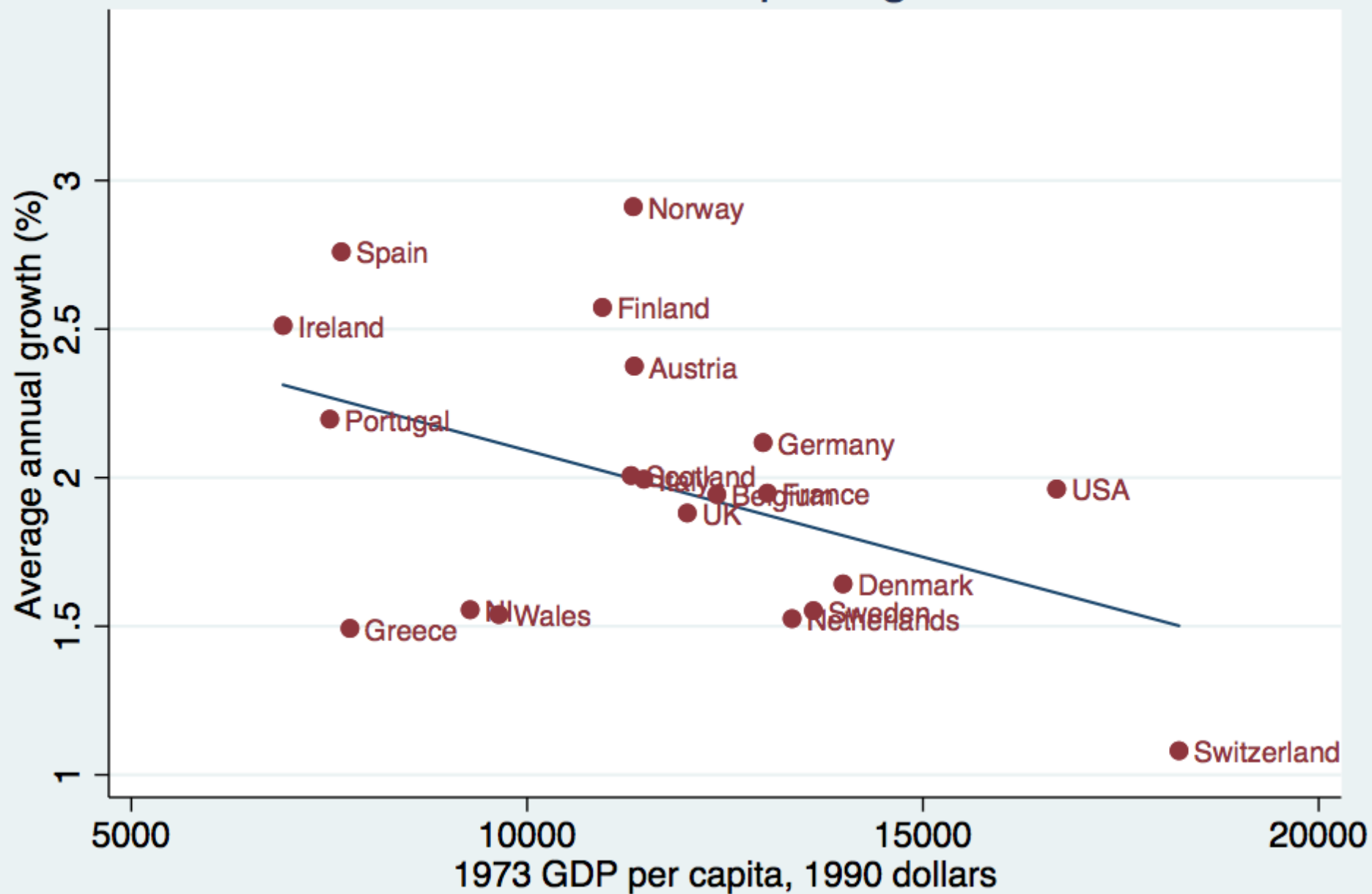
Initial income and subsequent growth, 1960-73



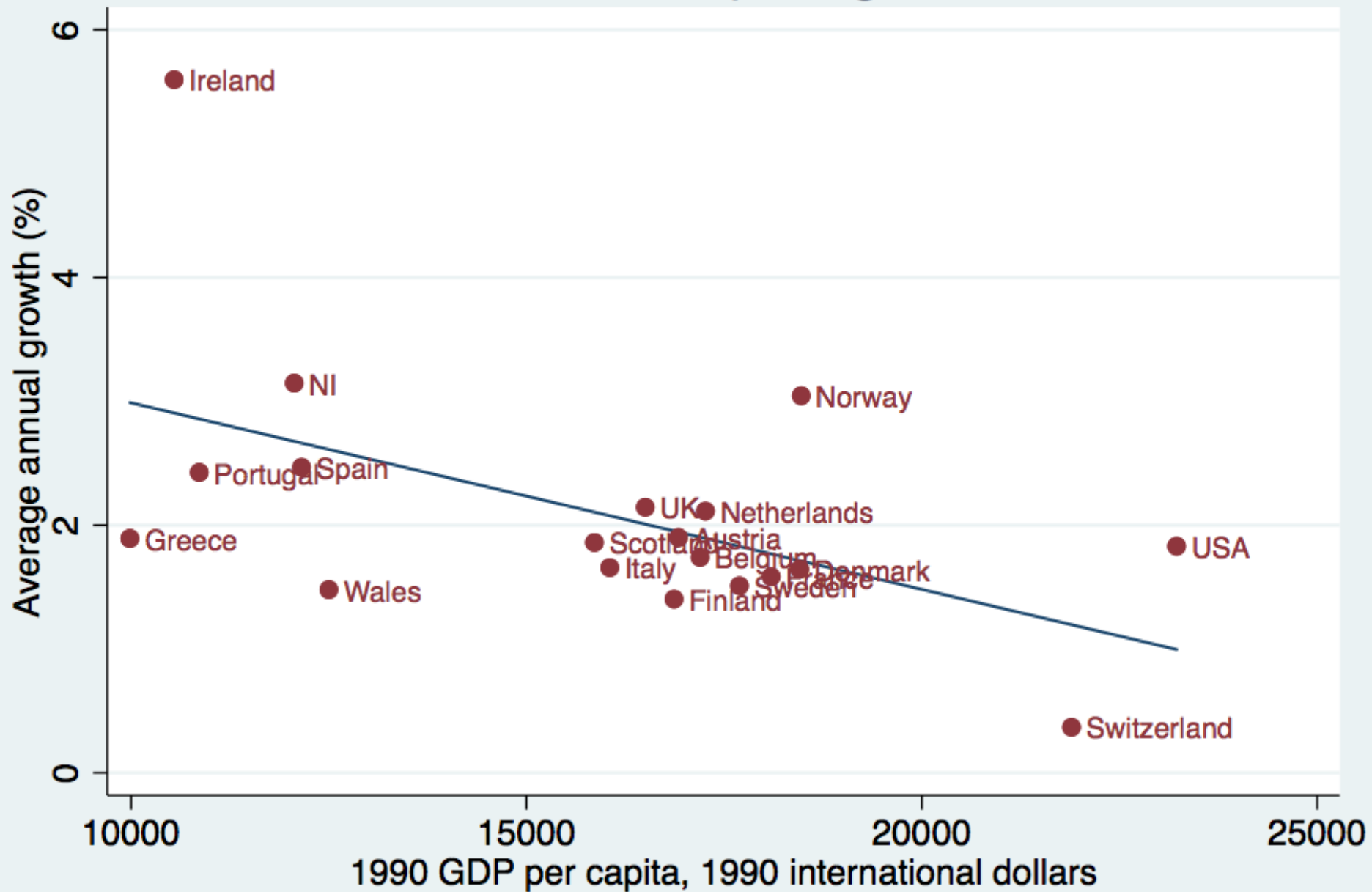
Initial income and subsequent growth, 1954-73



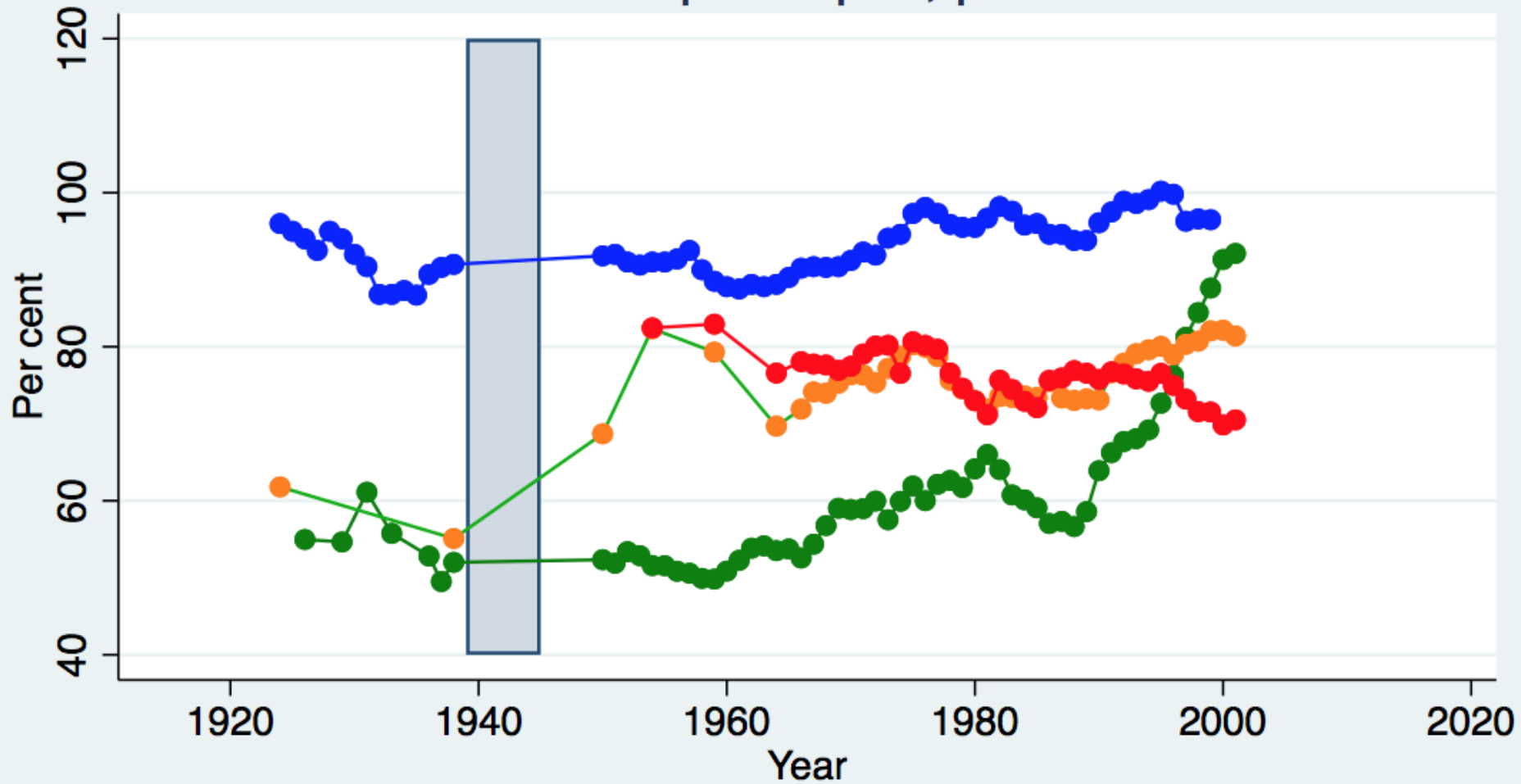
Initial income and subsequent growth, 1973-90



Initial income and subsequent growth, 1990-2001



GDP and GNP per capita, per cent of UK



What the book does

- To understand Brexit and the negotiations that follow, you need to understand
 - These three histories (UK, EU and Ireland), how they have shaped attitudes and economies, and how they are interacting today
 - The logic of free trade areas vs customs unions vs single markets
- A lot of what we have lived through during the course of the last two and a half years follows fairly logically from the above

Structural explanations for Brexit

	Cultural	Economic
Anglocentric	British Euroscepticism	Austerity
International	Russian interference, Brietbart, fake news	Globalization

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FINTAN
O'TOOLE
**HEROIC
FAILURE**

BREXIT AND THE
POLITICS OF PAIN



Structural explanations for Brexit

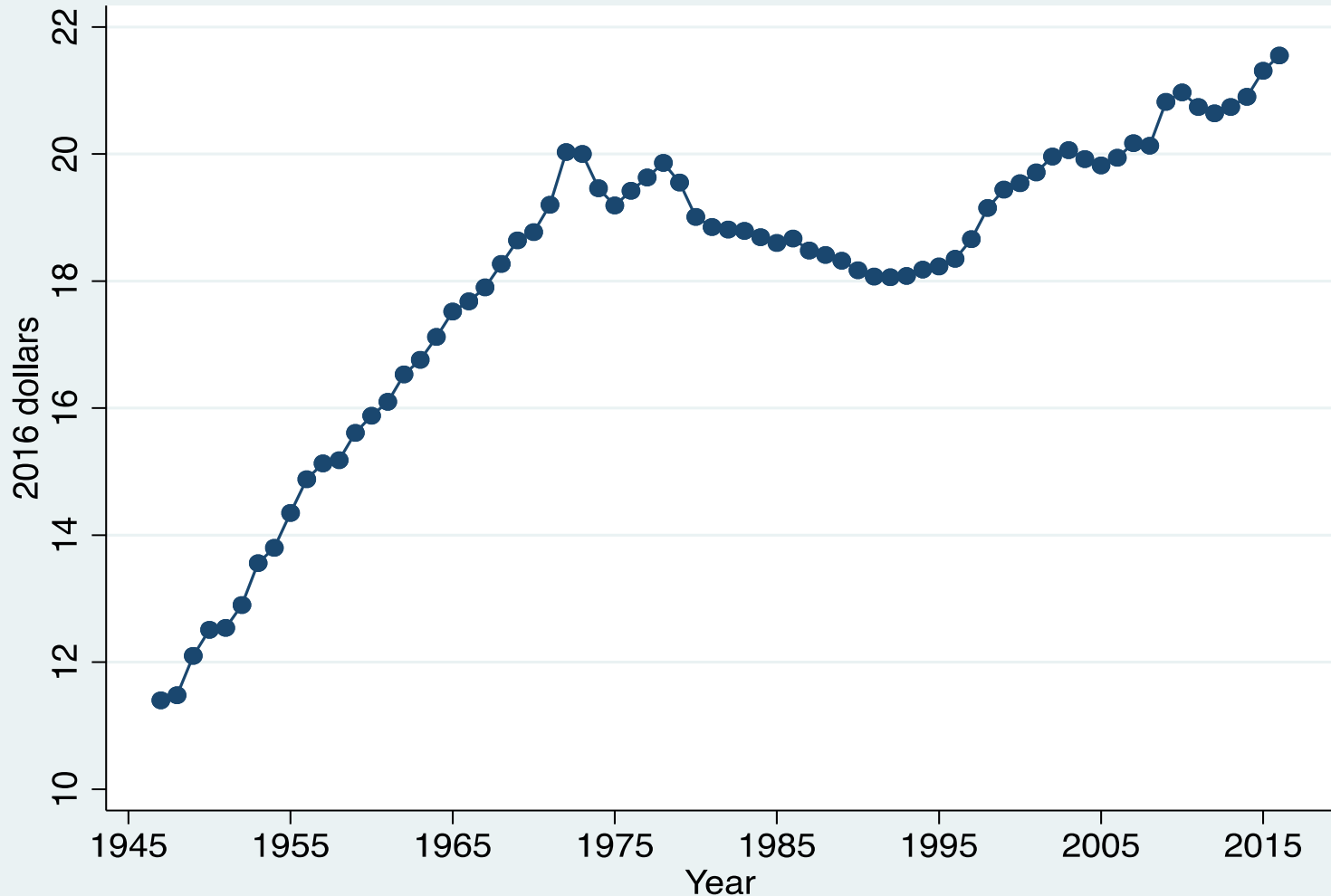
	Cultural	Economic
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O'Rourke and Williamson 1999

- A focus of this book has been the political implications of globalization, and the lessons are sobering. Politicians, journalists, and market analysts have a tendency to extrapolate the immediate past into the indefinite future, and such thinking suggests that the world is irreversibly headed toward ever greater levels of economic integration. The historical record suggests the contrary . . . unless politicians worry about who gains and who loses, they may be forced by the electorate to stop efforts to strengthen global economy links, and perhaps even to dismantle them.

2016 didn't just see Brexit...

And it didn't arrive like lightning in a
blue sky



France 2005

- Clearly many factors explain the No vote
- But in part a rejection of market/globalization
- Blue collar workers voted No, white collar workers voted Yes
- Similar in Ireland

Table 1
The Sociopolitical Support for the “No” in the Last Two European Referenda

% of No	Maastricht Treaty (1992)	European Constitution Treaty (2005)
Whole sample	49	55
Gender		
Men	48	57
Women	50	53
Profession		
Farmers	62	70
Shopkeepers, Craftsmen	49	51
Professionals	33	35
Middle management and assimilated	38	53
Clerical workers	53	67
Blue-collars	61	79
Retired	46	44
Age		
18–24 years old	49	56
25–34 years old	52	55
35–44 years old	49	61
45–59 years old	47	62
60–69 years old	45	44
70 years old and more	**	42
Sector of activity		
Private sector	50	56
Public sector	49	64
Independent	56	58
Unemployed	59	71
Students	41	46
Partisan proximity		
Extreme Left	70	94
Communist Party	81	98
Socialist Party	22	56
Greens	43	60
UDF	39	24
RPR/UMP	59	20
National Front	92	93

Source: IPSOS, exit polls

Spurious correlation?

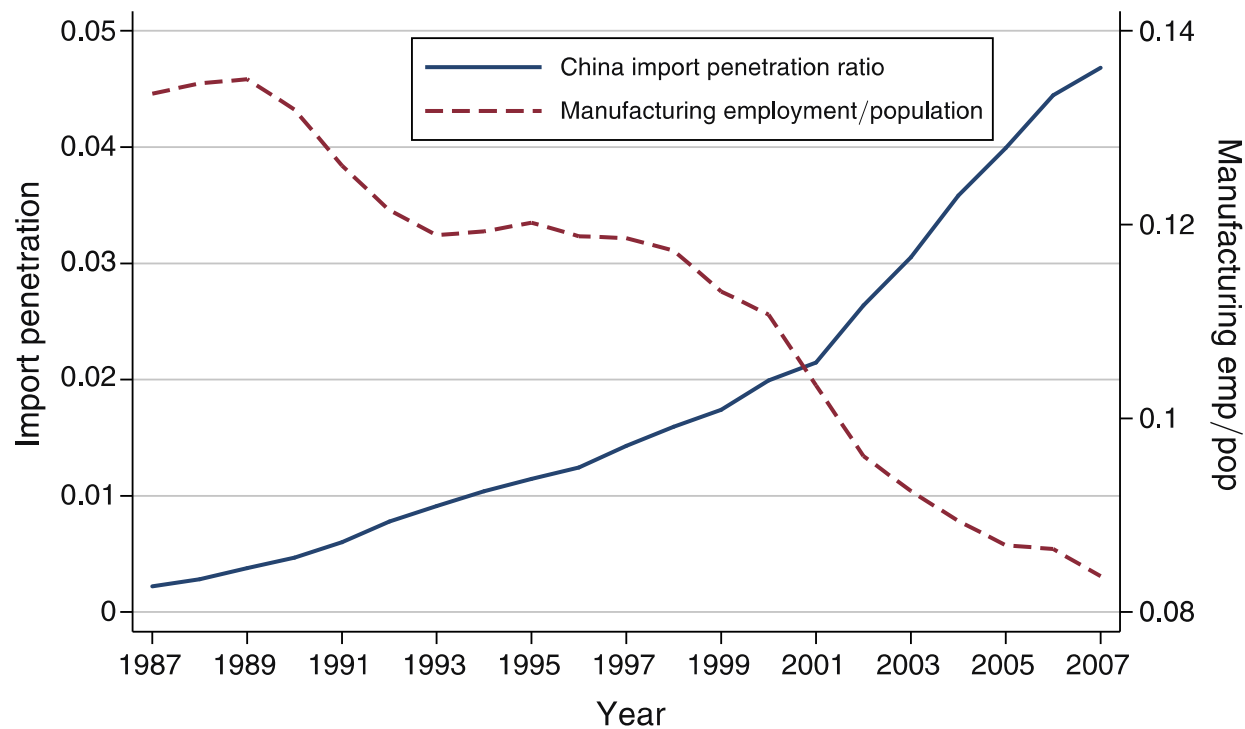


FIGURE 1. IMPORT PENETRATION RATIO FOR US IMPORTS FROM CHINA (*left scale*), AND SHARE OF US WORKING-AGE POPULATION EMPLOYED IN MANUFACTURING (*right scale*)

Autor et al. (2013)

TABLE 7—COMPARING EMPLOYMENT AND WAGE CHANGES IN MANUFACTURING AND OUTSIDE MANUFACTURING, 1990–2007: 2SLS ESTIMATES
Dependent variables: Ten-year equivalent changes in log workers and average log weekly wages

	I. Manufacturing sector			II. Nonmanufacturing		
	All workers (1)	College (2)	Noncollege (3)	All workers (4)	College (5)	Noncollege (6)
<i>Panel A. Log change in number of workers</i>						
(Δ imports from China to US)/worker	−4.231*** (1.047)	−3.992*** (1.181)	−4.493*** (1.243)	−0.274 (0.651)	0.291 (0.590)	−1.037 (0.764)
R^2	0.31	0.30	0.34	0.35	0.29	0.53
<i>Panel B. Change in average log wage</i>						
(Δ imports from China to US)/worker	0.150 (0.482)	0.458 (0.340)	−0.101 (0.369)	−0.761*** (0.260)	−0.743** (0.297)	−0.822*** (0.246)
R^2	0.22	0.21	0.33	0.60	0.54	0.51

Notes: $N = 1,444$ (722 CZs $\times$ two time periods). All regressions include the full vector of control variables from column 6 of Table 3. Robust standard errors in parentheses are clustered on state. Models are weighted by start of period CZ share of national population.

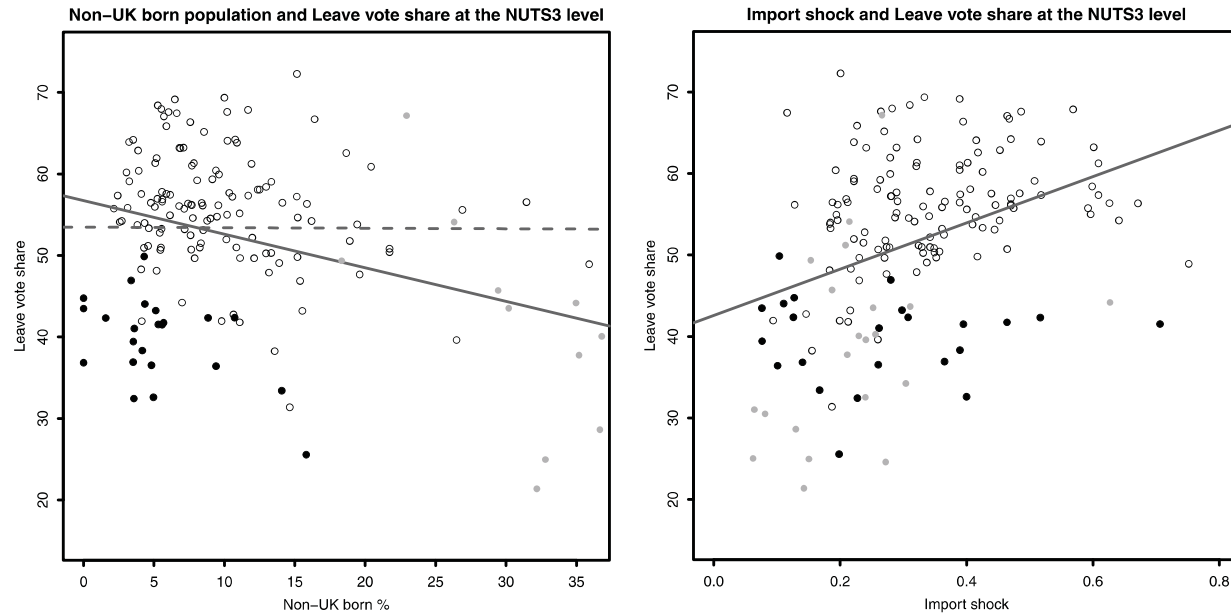
*** Significant at the 1 percent level.

** Significant at the 5 percent level.

* Significant at the 10 percent level.

Colantone and Stanig (2018)

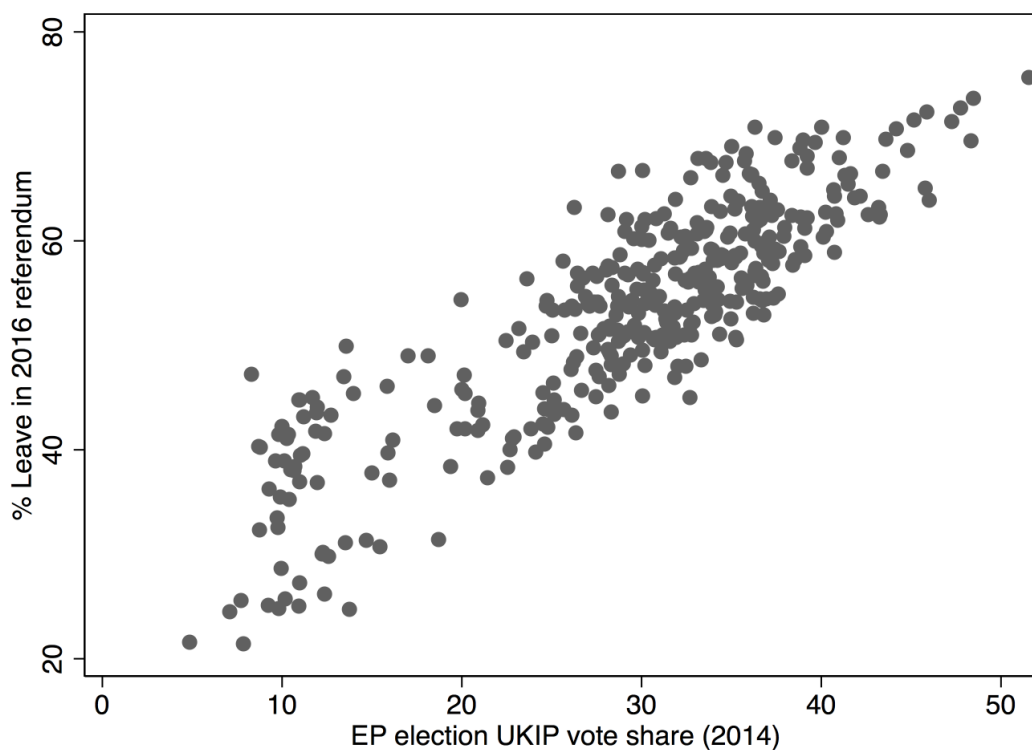
FIGURE 4. Import Shock, Immigration, and Leave Vote Share



Notes: Black dots are NUTS3 regions of Scotland, grey dots are the NUTS3 of London, and the hollow dots are the remaining NUTS3 of England and Wales. The grey solid lines are least-squares fits on the whole sample, the dashed grey line is the least-squares fit excluding London.

Austerity (Fetzer 2018)

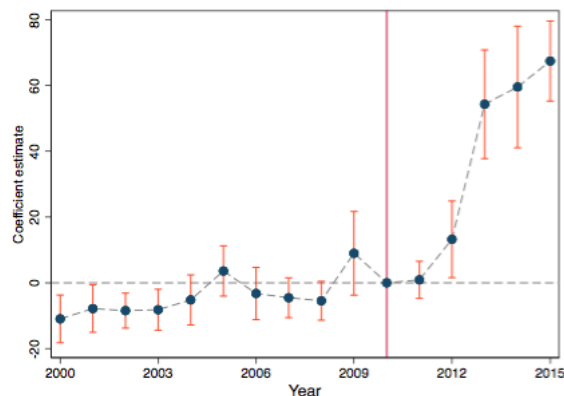
Figure 1: UKIP Election Result in 2014 EP elections and EU referendum vote leave.



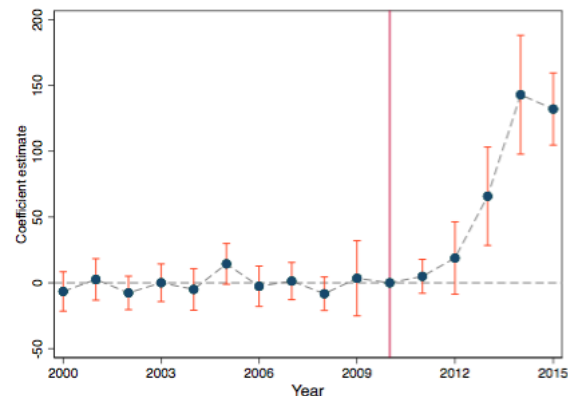
Notes: The R-squared of a univariate cross-sectional regression of support for Leave and UKIP vote share in the 2014 elections is 75%, and the point estimate is a near straight line with an intercept of 15 percentage points, suggesting that UKIP EP vote share plus 15% does a reasonably good job predicting the EU referendum vote share for Leave.

Austerity (Fetzer 2018)

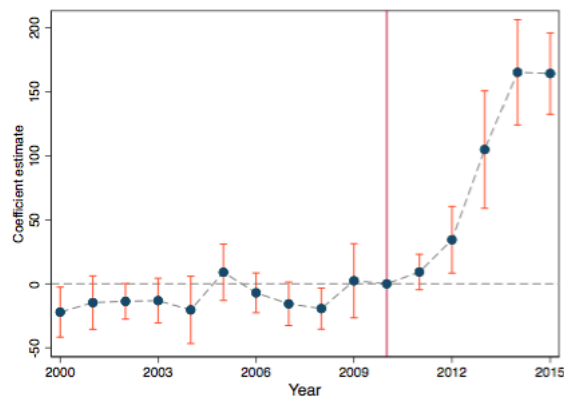
Panel A: No qualifications



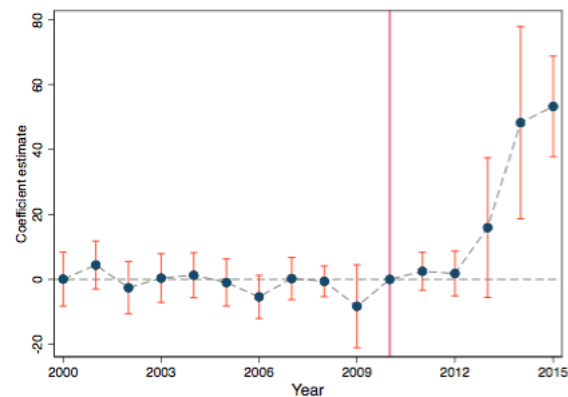
Panel B: Routine jobs



Panel C: Retail



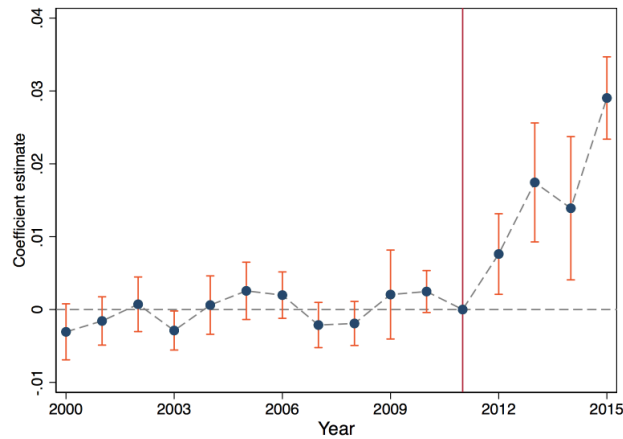
Panel D: Manufacturing



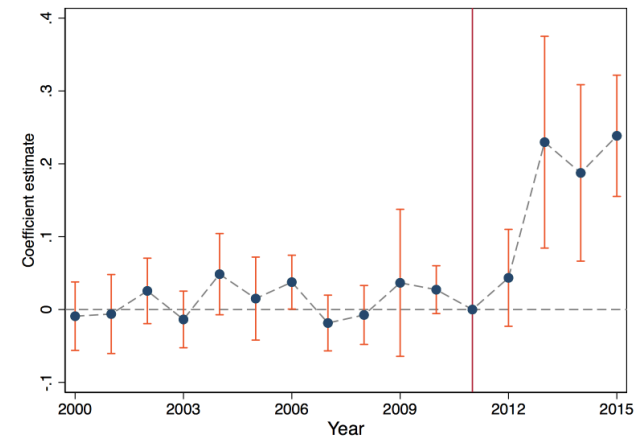
Notes: The dependent variable is the percentage of votes for UKIP in local council elections. Panel A uses the share of the resident population with no formal qualifications as of 2001. Panel B uses the share of the resident population in Routine jobs as per the National Socio-Economic Classification of Occupations as of 2001. Panel C uses the share of the resident working age population employed in the Retail sector, while panel D uses the share of the resident working age population employed in Manufacturing. The graph plots point estimates of the interaction between these cross sectional measures and a set of year fixed effects. All regression include local authority district fixed effects and NUTS1 region by year fixed effects. Standard errors are clustered at the district level with 90% confidence bands indicated.

Figure 6: Non-parametric effect of austerity on support for UKIP overall and by individual measures.

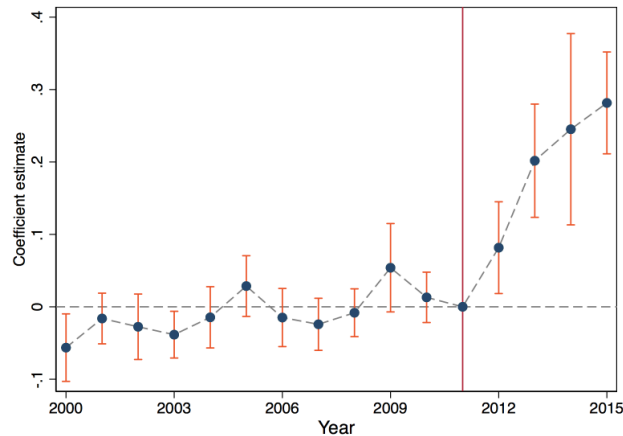
Panel A: Overall austerity shock



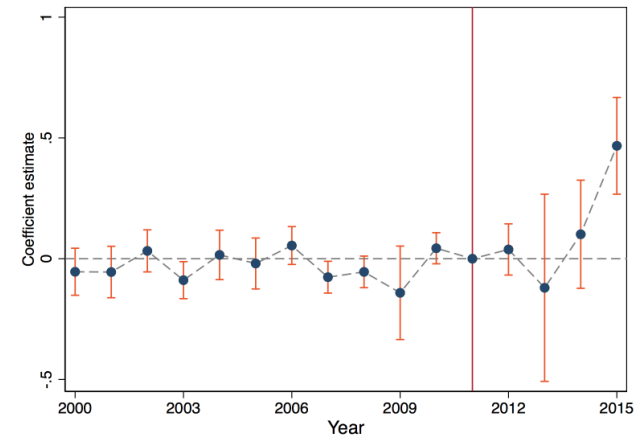
Panel B: Council Tax Benefit



Panel C: Disability Living Allowance



Panel D: Bedroom Tax



Notes: The dependent variable is the percentage of votes for UKIP in English and Welsh local council elections from 2000-2015. The graph plots point estimates of the interaction between these simulated incidence of the austerity measures and a set of year fixed effects. All regression include local authority district fixed effects and NUTS1 region by year fixed effects. Standard errors are clustered at the district level with 90% confidence bands indicated.

Labour market regulations

Table 2. *Labour market regulation in Europe until 1913.*

	Minimum age 12	Ten hour working day youths	Night work children prohibited	Night work women prohibited	Eleven hour working day women	Introduction of factory inspection	Introduction of first factory acts
Austria	1885	1843	1842	1895	1895	1883	1787
Belgium	1889	*	1889	1909e	*	1889	1889
Bulgaria	1905	*	–	1909e	1913	1905	–
Denmark	1901	1901	1891	*	*	1873	1873
Finland	1889	*	–	*	*	1889	–
France	1871	1892	1892	1892	1892	1874	1841
Germany	1853	1839	1839	1891	1891	1853	1839
Hungary	1840	1893	1884	1909e	*	1893	1840
Italy	1907	*	1902	1907	*	1906	1886
Netherlands	1889	1913	1889	1889	1889	1895	1874
Norway	1892	1892	1892	1909e	*	1892	1892
Portugal	*	1891	*	1909e	*	1893	1891
Russia	1907	*	*	1905	*	1882	1882
Spain	*	*	1900	1909e	*	1907	1873
Sweden	1881	1890	1892	1909e	*	1889	1881
Switzerland	1833	*	1837	1894	1894	1877	1877
United Kingdom	1899	*	1833	1844	1850	1833	1833

Notes: *Indicates did not enact such a regulation. – Indicates information not available. e Indicates mid-point estimate.

Sources: See text.

Social insurance

Table 3. *Social insurance in Europe until 1913.*

	Accident compensation	Unemployment insurance	Sickness insurance	Old age insurance
Austria	1887	*	1888	*
Belgium	1903	1907/1920(V)	1894	1900(V)
Bulgaria	1908	*	*	*
Denmark	1898	1907(V)	1892(V)	1891
Finland	1893	*	*	*
France	1898	1905(V)	1898(V)	1900(V)
Germany	1884	*	1883	1889
Hungary	1907	*	1907	*
Italy	1898	*	1886(V)	1898(V)
Netherlands	1901	*	1913	1913
Norway	1894	1906(V)	1909	*
Portugal	1913	*	*	*
Russia	–	*	–	*
Spain	1900	*	*	*
Sweden	1901	*	1891(V)	1913
Switzerland	1911	*	1911(V)	*
United Kingdom	1897	1911	1911	1908

Notes: *Indicates did not enact such a regulation. – Indicates information not available.

V stands for a voluntary scheme.

Sources: See text.

No race to the bottom here

Labour Compact
Index, 1913

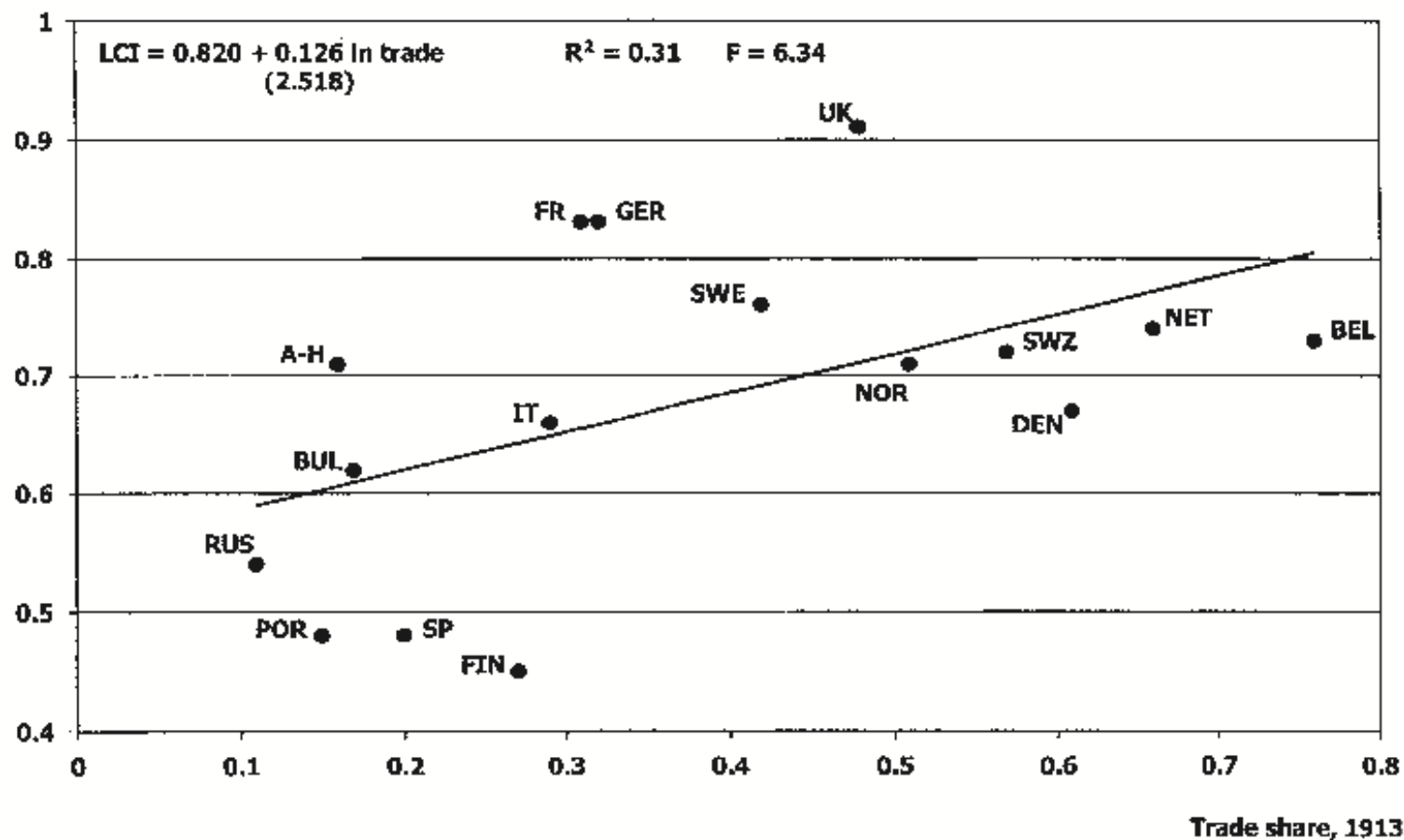


Figure 1. *Openness and the labour compact in 1913.*

The European context

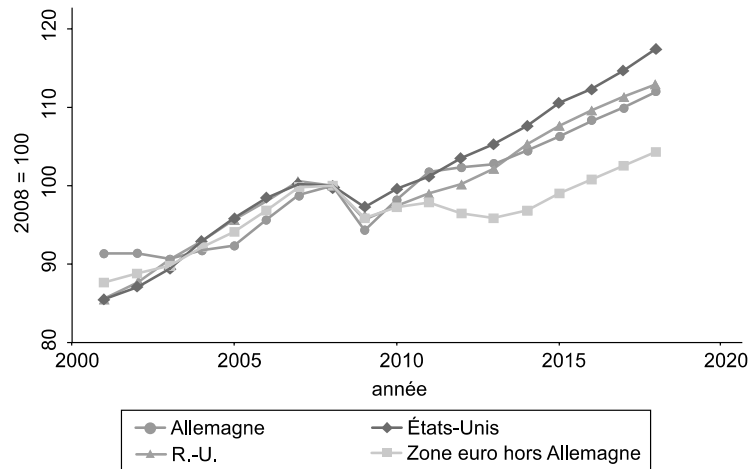


Figure 9.1. PIB 2001-2016 (2008 = 100).

Source: Ameco Macroeconomic Database (Commission européenne).

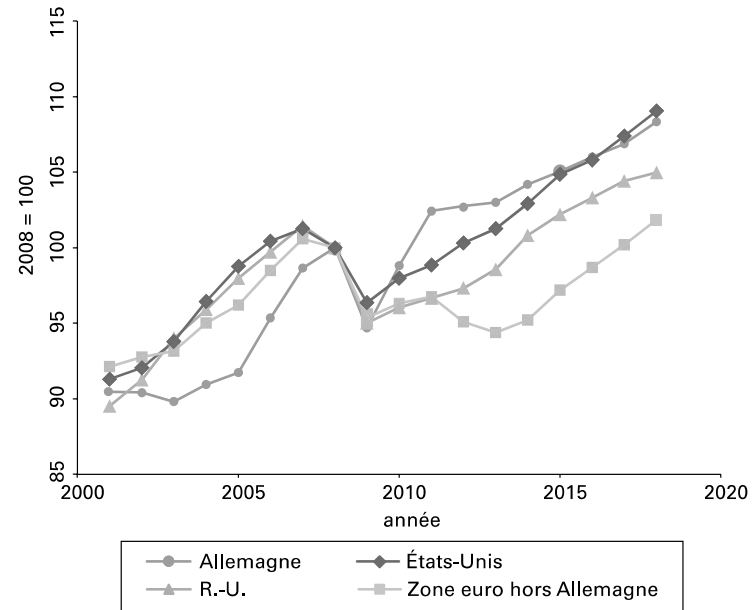


Figure 9.2. PIB par habitant 2001-2016 (2008 = 100).

Source: Ameco Macroeconomic Database (Commission européenne).



Cummings (2017)

- “Reality has branching histories, not a ‘big why’”
- “Without Boris, Farage would have been a much more prominent face on TV during the crucial final weeks, probably *the* most prominent face...It is extremely plausible that this would have lost us over 600,000 vital middle class votes”
- “If Boris, Gove, and Gisela had not supported us and picked up the baseball bat marked ‘Turkey/NHS/£350 million’ with five weeks to go, then 650,000 votes might have been lost.”