

Brexit: Four charts to explain why did Britain make the decision to leave the EU

Vladimir Popov

ABSTRACT

After the Second World War British industry was oriented towards the markets of former colonies, where the standards of efficiency and quality were not that high, so it was gradually losing competitiveness as compared to its European counterparts. Britain was falling behind continental Europe in productivity and personal income until it entered the EU in 1973: the UK did not start growing faster than continental Europe, but at least stopped falling behind. EU membership definitely benefited Britain mostly because it gained free access to the burgeoning markets of continental Europe. However, only a minority of the population benefited from the acceleration of economic growth: since the early 1980s income and wealth inequalities increased greatly. A large group of less well-off UK voters did not really have a chance to benefit from gains of British EU membership because these gains accrued mostly to the richest.

The British elite, however, blamed the relative deterioration of the disadvantaged part of the population not on its own policies (failing to curb the rise of inequalities), but on globalization, foreign competition and the EU. The goal was to get the better deal from Brussels (even better than the special conditions granted to the country when it entered the EU in 1973). But the side effect was the rise of nationalism and anti EU mood among the disadvantaged groups, especially in less competitive and depression prone parts of the country.

At the end of the day, it turned out that the British elite outsmarted itself: it was trying to play the “brexit card” for getting minor concessions from the EU, but instead lost the free access to the European market altogether.

Keywords: BREXIT, EU, Inequalities, Competitiveness, Productivity growth, Political elite

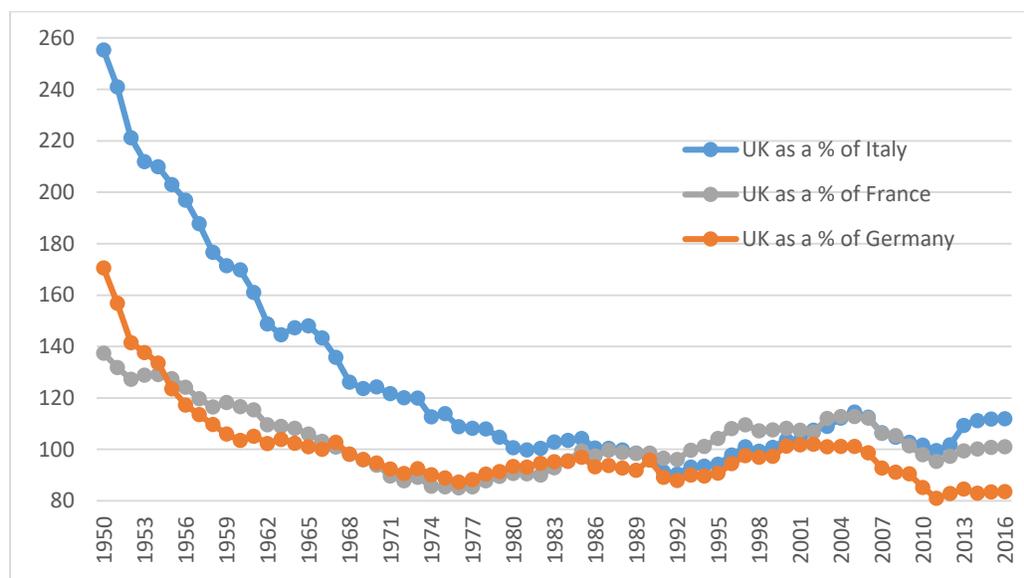
JEL: D31, D63, F50, F63, O15, O52

Brexit: Four charts to explain why did Britain make the decision to leave the EU

Vladimir Popov

After the Second World War continental Europe that was recovering from postwar destructions and experienced a boost in its development after the creation of European Economic Union by 6 countries in 1957. Custom union between these 6 countries came into effects in 1965, two years ahead of schedule, and a large market promoted cooperation, specialization and rationalization of the European industry. Britain however was falling behind continental Western Europe in terms of its per capita income (fig. 1).

Fig. 1. UK PPP GDP per capita as a % of Germany, France and Italy



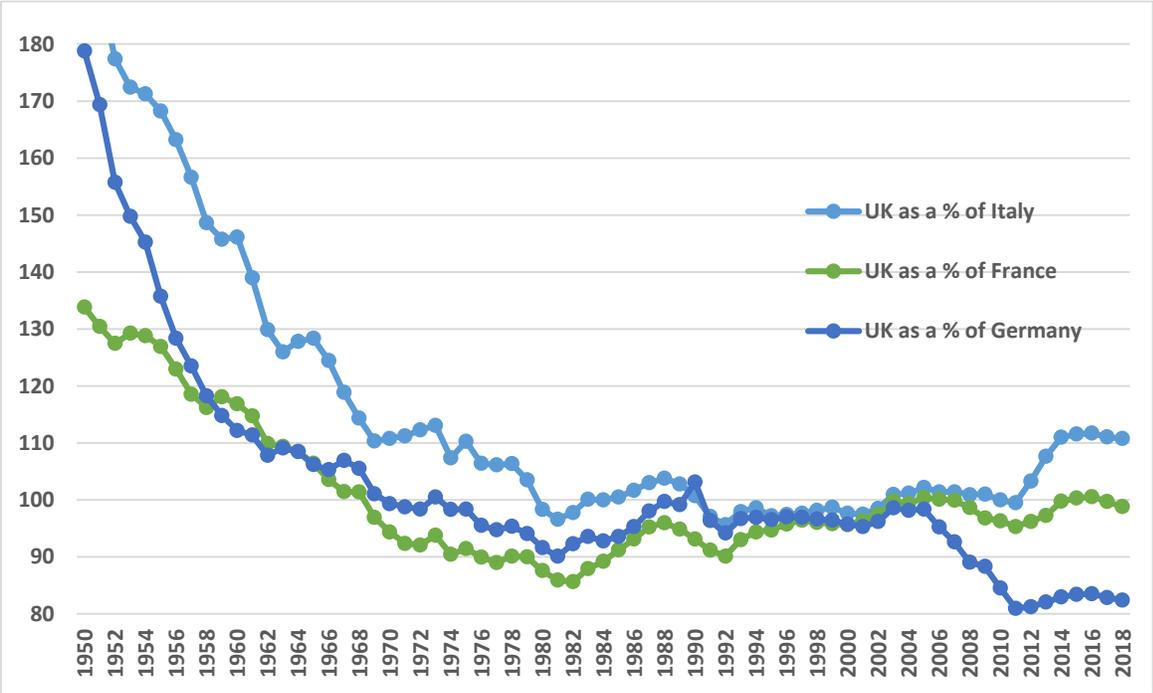
Source: Maddison project database 2020.

British industry was oriented towards the markets of former colonies, where the standards of efficiency and quality were not that high, so it was gradually losing competitiveness as compared

to its European counterparts. In the late 1960s and 1970s Britain was referred to as “a sick man of Europe” because of industrial strife and poor economic performance compared to other European countries. British economic choices were described in terms of “stop-go policies” – attempts to stimulate economic growth led to higher imports and outflow of capital, provoking balance of payments crisis and the need to press the brakes (monetary restrictions to raise interest rates and fiscal constraints to curb growth) to correct the balance of payments.

This trend of falling behind Europe in productivity and personal income was brought to a halt only after Britain entered the EEC (European Economic Community) in 1973 and custom tariffs between Britain and EEC were eliminated in 1977: the UK did not start growing faster than continental Europe, but at least stopped falling behind. Since the early 1980s Britain actually improved its relative standing in PPP GDP per capita versus France and Italy, and until 2005 it was even doing a bit better than Germany (fig. 1).

Fig. 1. PPP GDP per capita in 2011 dollars in the UK as a % of Germany, France and Italy

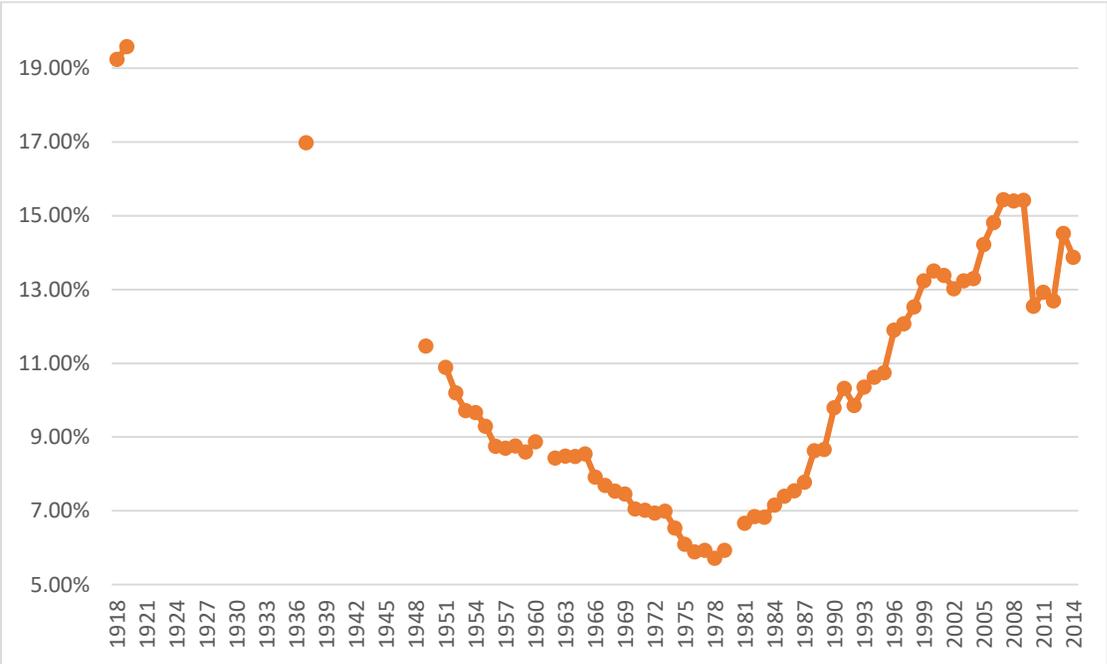


Source: Maddison, 2020.

EU membership definitely benefited Britain mostly because it gained free access to the burgeoning markets of continental Europe. At the UK referendum on continued membership in the EEC in 1975 67.2% of the voters supported the choice.

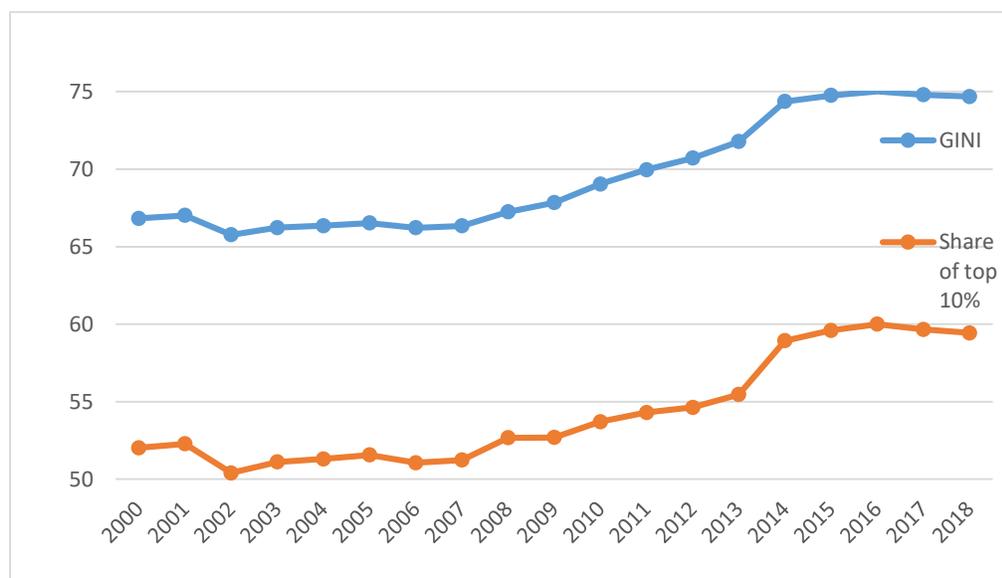
However, only a minority of the population benefited from the acceleration of economic growth: since the early 1980s income inequalities increased (fig. 2), and so did wealth inequalities (fig. 3).

Fig. 2. Share of the top 1% of population in total income, %



Source: World Inequality Database (<https://wid.world/country/united-kingdom/>).

Fig. 3. Share of top 10% of population in total national wealth and Gini coefficient of wealth distribution, %



Source: Global Wealth Report, Credit Suisse (<https://www.credit-suisse.com/corporate/en/research/research-institute/global-wealth-report.html>).

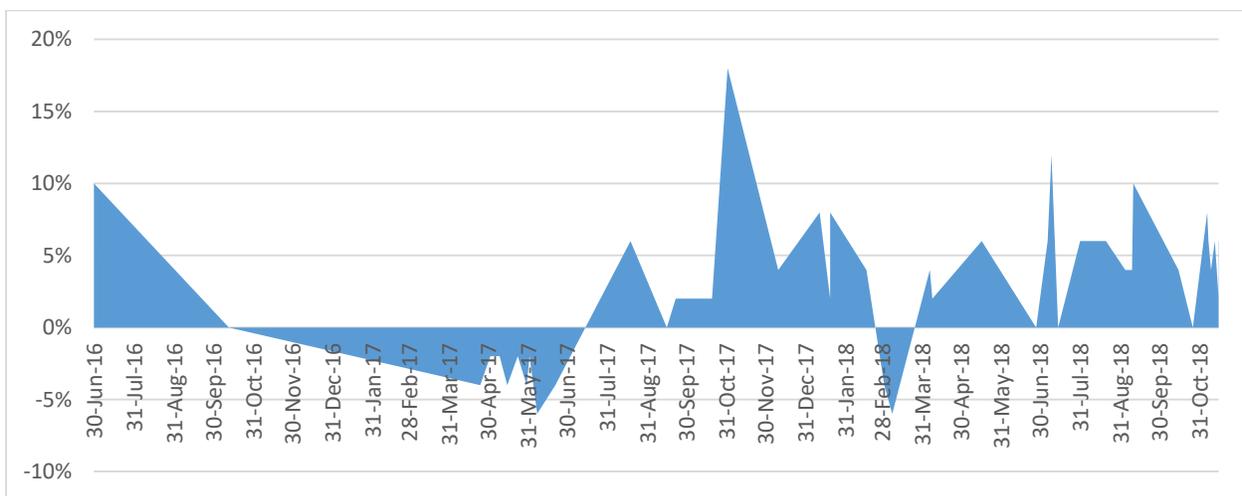
To put it differently, a large group of less well-off UK voters did not really have a chance to benefit from gains of British EU membership because these gains accrued mostly to the richest. To add insult to injury, the British elite started a dangerous game: it blamed the relative deterioration of the disadvantaged part of the population not on its own policies (failing to curb the rise of inequalities), but on globalization, foreign competition and the EU. The goal was to get a better deal from Brussels (even better than the special conditions granted to the country when it entered the EU in 1973). But the side effect was the rise of nationalism and anti EU mood among the disadvantaged groups, especially in less competitive and depression prone parts of the country.

From the point of view of economic efficiency and future growth, Brexit was bad for the EU and especially bad for Britain. But the majority of British voters, misled by the media propaganda, apparently blamed economic difficulties not on policies that allowed inequalities to rise, but on

the European integration and globalization. The ruling class hoped to walk over the razors' edge, using populist anti-EU votes to press Brussels, but failed and lost referendum of June 2016 to the brexiteers by a narrow margin.

In fact, in 2.5 years since the referendum only about 10 months the public opinion was in favor of leaving the EU (fig. 4). Not to mention that these types of decisions that determine the future for many years to come were supposed to be taken not by simple, but by qualified majority.

Fig. 4. Opinion polls results - percentage of "remain" votes minus percentage of "leave" votes", p.p.



Note: Answers to the question "If there was another referendum on Britain's membership of the EU, how would you vote?"

Source: What UK thinks (<https://whatukthinks.org/eu/questions/if-there-was-a-referendum-on-britains-membership-of-the-eu-how-would-you-vote-2/>).

A survey of 2021, five years after the Brexit referendum and nearly two years after leaving the bloc, showed that most Britons (53 versus 47%) would vote to rejoin the EU if a plebiscite were held at that time (<https://www.euractiv.com/section/uk-europe/news/most-brits-would-rejoin-eu->

[if-new-vote-held-survey-shows/](#)). And according to September 2022 survey (Spisak, 2022), an overwhelming majority of the public (59 per cent) thought that Brexit has worsened the UK's economy, including over a third of Leavers (34 per cent). To add insult to injury, most voters viewed the effects of Brexit on their lives as mostly negative, particularly on trade (net -52 per cent) and ease of doing business with the EU (-45 per cent).

The British elite obviously outsmarted itself by trying to play the “brexit card” for getting minor concessions from the EU. At the end of the day it lost the free access to the European market without receiving any concessions. The story of Brexit was very much driven by populism: voters did not choose the optimal outcome because the media succeeded in creating misperceptions in public opinion (Grote, Popov, 2018). And whereas it is not uncommon for the elite to misinform the public to gain advantages for itself, in the Brexit case it literally shot itself in the foot.

References

Global Wealth Report, Credit Suisse (<https://www.credit-suisse.com/corporate/en/research/research-institute/global-wealth-report.html>).

Grote, Jürgen R. and Popov, Vladimir (2018). The Causes of Political Misperceptions: Suggestions for Research. December 28, 2018. Available at SSRN: <http://dx.doi.org/10.2139/ssrn.3307394>

Maddison, 2020. ([Maddison Project Database 2020 | Releases | Groningen Growth and Development Centre | University of Groningen \(rug.nl\)](#)).

Spisak, Anton (2022). Moving On: How the British Public Views Brexit and What It Wants From the Future Relationship With the European Union. October 18, 2022. Tony Blair Institute for Global Chance. <https://institute.global/policy/moving-how-british-public-views-brexit-and-what-it-wants-future-relationship-european-union>

What UK thinks (<https://whatukthinks.org/eu/questions/if-there-was-a-referendum-on-britains-membership-of-the-eu-how-would-you-vote-2/>).

World Inequality Database (<https://wid.world/country/united-kingdom/>).