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Comments on "The Future of Policy Advice by Inter-governmental Institutions: lessons from the UK's EU referendum Leave Vote"

*Robert WR Price**

Kumi Shigehara suggests that one reason why the advice of the inter-governmental organisations was so negatively received during the Brexit may have been the failure to address non-economic considerations on top of the assessment of macro-economic costs, particularly distributional effects, in the form of growing inequalities. There may also be room to improve make the dissemination of policy messages more effective. This note makes some observations on these two issues. [1].

What were the non-economic issues behind the Brexit vote and how susceptible are they to advice from inter-governmental institutions?

Subsequent to the Brexit vote there has been a mass of commentary interpreting the vote as (principally) being one against globalisation and the 'international elites' and economic experts that propagate it. This is now driving the new Conservative government agenda, judging by Prime Minister May's Conference speech, so there must be some truth in it. This argument sees the distributional and fairness arguments as paramount and puts one segment, at least, of the 'leave' referendum voters in the same category as disaffected Trumpists and anti-trade Walloonists. However, in the UK it is not trade protectionism or anti-globalism (in the sense of being against Chinese imports etc.) but concerns about immigration and free movement of labour that have been crucial, which is what gives the question an anti-EU focus. Real wage growth since the financial crisis has been the lowest among OECD countries, though the link is not borne out by the facts[2], immigration is seen as pushing down wages at the lower end of the income scale (exacerbating inequalities), which accounts for the fact that among 'leave' voters cutting back on immigration is the single most important issue. This is not directly a reaction to 'openness': there has been no agitation to block imports – even in the steel sector. Nor is it really an insufficient welfare issue, despite the fact that some politicians like to blame 'austerity'. The welfare state is actually quite generous in the UK, particularly with respect to housing rights (though not to public housing provision), health and education and in-work benefits. But immigration feeds into discontent because, rightly or wrongly, immigrants are seen as depriving the indigenous population of welfare services (crowding out schools, jumping the queue for housing, overstretching health services etc.)

In all this, *macro*economic arguments are secondary. When asked whether the negative effects on GDP counted in his decision, one Brexiter's response was that 'its your GDP, not mine'. It is not just a lack of faith in experts (stemming from the financial crisis) but a belief in the irrelevance of expert advice to the

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1 Probably, among all the contributors to this debate, I am the only one who actually voted (to remain) and some of the following reflects the discussions/arguments I have had prior to and following the ref referendum with friends and acquaintances who voted to leave the UK.

2 See, CEP Brexit Analysis No.5, Centre for Economic Performance, The London School of Economics and Political Science, 11 May 2016, http://cep.lse.ac.uk/_new/publications/press1.asp?index=5053., quoted in Shigehara's paper.

issues people face. Since macro-economic arguments carry little or no weight for this segment of the electorate, I am not sure that the OECD could have done much to turn the tide of this non-economic negativism. What would have been needed was a policy analysis and prescription derived from an integrated view of the benefits/costs of the free movement of goods, services labour and capital: i.e. of the single market, which is being discussed only now that the referendum is over. That is to say, pointing out the (actually generally accepted) welfare benefits of global trade expansion (and the negative effects of drawing back from this) needed to be combined with a wider analysis of the impact of the other 'freedoms' that go with it (labour and capital). These last two issues are deeply systemic (the four freedoms being entrenched in the *acquis* of the single market) as well as sociological, the consequences being potentially more seismic than the purely economic ones.

It follows that in ignoring the wider implications of Brexit, the mechanical predictions of the prospective cost of Brexit, focused on macro-economic models, backfired. This has not just affected the OECD: national institutions, such as the Bank of England -- Mr Carney in particular -- and the Treasury (under Osborne at least) have also shared in the popular opprobrium of 'experts'. Moreover, the reputational harm which has been done has been magnified by the pursuit of a spurious precision, whereas the macro-economic 'models' on which the estimated costs were based were hardly models at all, but rather back-of-the-envelope guesses, and as such and deeply flawed. There seems to have been a political need to quantify what is really quantifiable, given the current state of economic technology.

Brexit as a response to EU failures

However, anti-globalisation is not the whole story, or even the greater part of it. Older, wealthier people, the majority of whom also voted to leave, have been protected from both globalisation and austerity. The real incomes of pensioners have been maintained – although those without DB pensions have suffered from falling interest income and may not have had much sympathy with Carney's scare tactics, since the BoE's QE strategy is widely seen as responsible. In fact, the intellectual – and until the referendum the most dominant strand in Brexitism -- has actually been outward looking in a (mistakenly) utopian way, a vote against the EU being seen as one against protectionism, EU-scleroticism etc. This is actually a faux liberalism, as the interventionism to save the post-Brexit car industry shows, but the three Brexit ministers all claim to be outward-looking globalists. And there were, despite the 'near universal' remain consensus among economists, a small number of non-mainstream economists (Patrick Minford etc.) among the 'hard Brexiters', who advocate leaving the EU in order to trade freely with the rest of the world.[3]

This outward, but backward, post colonial strand of EU antagonism has been very effective in whipping up public opinion, to the extent that there has been a very strong undercurrent of anti-EU feeling, fostered over many years by the tabloid press, which looks on the EU itself as protectionist and inward-looking, stemming from perceived overregulation, judicial interference. This is, in my opinion, unfair, but it is worth questioning why this has happened. In particular, the EU itself should have done a better job of explaining what it does, not least with respect to the benefits of the single market, competition policy and regulatory harmonisation. People are only now being told what the single market is, and what its benefits are. Moreover, on the sovereignty issue (which was another dominant strand of opposition for the Brexiters), the debate was completely confused, insofar as no-one knew the difference between the European Court of Justice (in Luxembourg, which adjudicates over the single market) and the European

[3] Anecdotally, Professor Minford and his arguments made the front page headline of the Daily Express (a populist Brexit newspaper) in September 2016, which reflects the extent to which the Brexit campaign has tried to represent itself as pro-trade rather than inwardly protectionist.

Court of Human Rights (in Strasbourg, which operate under the Council of Europe). A bit of institutional education, clarifying what the EU was actually responsible for, would have been helpful.

What can the OECD do to help the EU get across its integrationist, trade-creating message? As noted above, in my opinion the 'expert' direct advice given by the OECD was based on rather shaky foundations (there being no trade model on which to base any estimates of GDP loss) and the Country Surveys (of the UK, EU and the euro area[4]) have played no visible part in the debate. Obviously, the OECD could improve both its expertise and its salesmanship by improving its analytics and by tackling the issues that matter to people. It could also target the right audience (in this case the 'red-top' press who were the main drum-beaters for Brexit). But even if the OECD did have the means to increase the credibility of its advice, via a more holistic approach, it would still have been hammering on a closed door. OECD advice has always been most influential when it is given to countries which share the same paradigm and if there is a paradigm shift, the advice will be ignored. It is not just that the Brexiters disbelieved expert advice (an easy target) but rather that they did not want to believe advice that ran contrary to their priors.[5] Either that, or people are willing to pay an economic costs for non-economic objectives (sovereignty; less interference from Brussels/Mr Juncker).

For the moment, the Brexiters are basking in the good news that the experts are being proved wrong about the immediate cataclysmic effects of (the announcement of) the UK's leaving the EU. However, one benefit of the Brexit vote is that there has been a greater education in and discussion of the economic complexity of the issues involved, whether deriving from sectoral, regulatory or even exchange-rate driven factors. We also have an interesting on-going experiment which will demand heavy future analysis. One important message for politicians is that they should be weary of asking the electorate to vote on binary solutions to complex issues. A conclusion for international economists is that there are dangers of 'spurious precision' in coming out with headline, single-figure forecasts of the impact of large economic events using extremely partial analysis. And there are dangers in interfering in a highly partisan debate. Having been hurt once, it may argue for the international institutions being less bold in future. On the other hand, a further conclusion which could be drawn is that if inter-governmental institutions are to enter this area in the future, they should adopt a more holistic and integrated approach, taking better account of the 'emotional politics' attaching to the issue.

* Senior Fellow of the International Policy Studies Association. Former Head of the Monetary and Fiscal Policy Division; General Economic Analysis Division; and Country Studies Division II in the OECD Economics Department. Former editor of *OECD Economic Outlook*.

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4 Interestingly, I have talked to people who see the problems of the euro area as an argument for leaving the EU, even though the UK is not a euro-area member. In this case the arguments of economists against the long run viability of the euro area have helped feed the Brexit campaign. I recently met a Brexit voter who said that (subsequently) reading Stiglitz had strengthened his Brexit convictions.

5 When the OECD (Economic Outlook) changed its view about GDP growth post Brexit (it revised 2016 growth up by 0.1%), the papers were very quick to accept the 'climb down' as proof of the validity of the Brexit cause.