

## **THEME 1:**

THE RISE OF POPULISM AND  
ANTI-IMMIGRATION SENTIMENT  
IN A POST-GLOBALISATION SOCIETY  
AND THE CAUSES OF BREXIT

## MIGRATION, AUSTERITY AND BREXIT

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The UK referendum on EU membership on 23 June 2016 was a key moment for European (dis)integration. Even though the outcome was expected to be tight, in the days running up to the referendum bookmakers and pollsters predicted that the Remain side would win. After the result, many observers were left puzzled and keen to understand who voted to Leave.

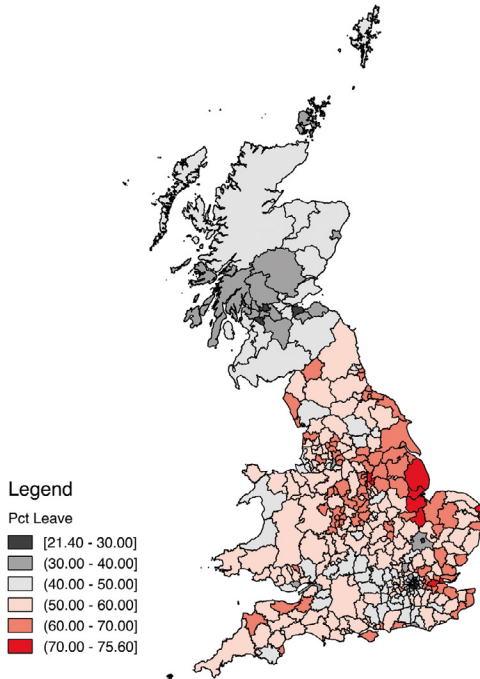
There are two complementary ways to approach the result. One is to try to understand broad patterns, for example, “Were some factors more important than others in explaining the overall pattern of the vote?” This perspective does not pose causal questions, for example by considering counterfactuals: “How would regions have voted if, instead of experiencing X, they had experienced Y?” To do this, a researcher would have to have set up a randomised control trial before the referendum and exposed some regions or voters to one type of experience, and others to an alternative experience, to analyse how random exposure to an experience would affect voting behaviour. We can get close to this by considering situations where, beyond their control, some regions/voters were exposed to different experiences – not by researchers but by changes in economic policies – and exhibited differential voting patterns.

In this Chapter, we present evidence on these two complementary perspectives. We start by summarising findings on the broad patterns of the Brexit vote. After that, we ask specifically whether austerity had a causal effect on the Brexit vote, that is, whether less austerity after 2010 would have resulted in a lower Leave share.

## Broad patterns of the Brexit vote

Following the results, various newspapers and blogs were quick to publish graphs plotting the relationship between the vote and key characteristics such as the age profile of the population (Burn-Murdoch, 2016). It was also pointed out that the Brexit vote related to class identification and social attitudes more generally (Kaufmann, 2016a). In recent research (Becker, Fetzer and Novy, 2017), we follow these early contributions and analyse the vote in more detail. We study the result in England, Wales and Scotland in a disaggregated way across 380 local authorities (and across 107 wards in four English cities). We relate the vote to fundamental socio-economic features of these areas. Figure 1 plots the Leave shares across the local authority areas (excluding Northern Ireland and Gibraltar).

Figure 1: Map of the Leave share (in percent) across local authority areas in the 2016 EU referendum

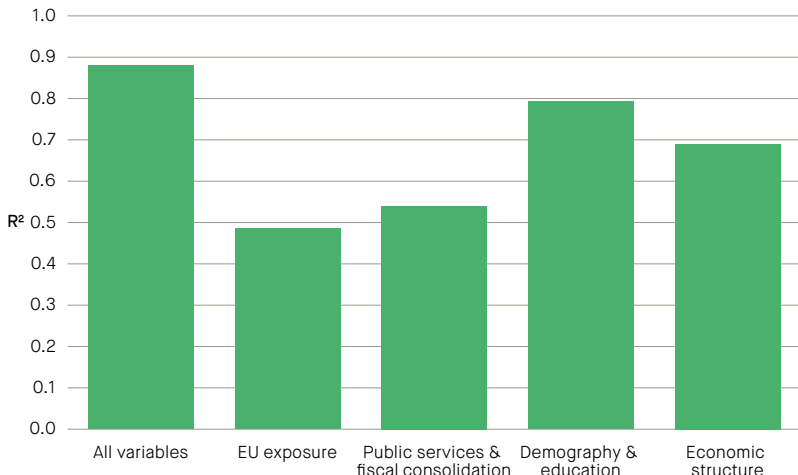


## Socio-economic characteristics

We capture different subsets of socio-economic variables that best predict the actual referendum result. We cannot give a comprehensive causal explanation because the outcome is obviously multi-causal and multi-faceted. In other words, our results reflect a broad range of correlations.

Figure 2 reports the goodness of fit in regressions that use different sets of explanatory variables. This sheds light on the relative explanatory power of different factors. For example, demography and education (i.e. the age and qualification profile of the population across voting areas) explain just under 80 percent of the Leave share. The economic structure explains just under 70 percent. Variables in this group include the employment share of manufacturing, unemployment and wages. Socio-economic variables capture variation in socio-economic deprivation (or not) across the UK and collectively explain a substantial share of the variation in the referendum result. We will return later to the question of whether deprivation may itself be the result of other factors, such as austerity.

**Figure 2: Goodness of fit (measured as R-squared) in separate regressions explaining the Leave share at the local authority area level using only regressors from the respective group of variables**



## EU exposure and immigration

Surprisingly and contrary to much of the political debate in the run-up to the election, we find that relatively little variation (under 50 percent) in the Leave share can be explained by measures of a local authority area's exposure to the EU. These measures include a local authority's trade exposure to the EU (albeit measured at a coarser spatial resolution), its receipts of EU structural funds, and importantly, the extent of immigration. We find evidence that the growth rate of immigrants from the 12 EU accession countries that joined the EU in 2004 and 2007 is linked to the Leave share. This link mirrors findings in Becker and Fetzer (2016) on the role of immigration from Eastern Europe in explaining the growth of UKIP. It stands in contrast to migrant growth from the EU 15 countries (members prior to 2004) or elsewhere in the world. It suggests that migration from predominantly Eastern European countries has had an effect – albeit quantitatively very small – on voters. However, we cannot identify the precise mechanism – whether the effect on voters is mainly economic, through competition in the labour and housing markets, or is felt as changing social conditions.

## Fiscal consolidation

In the wake of the global financial crisis, the UK coalition government brought in wide-ranging austerity measures to reduce government spending and the fiscal deficit. At the level of local authorities, spending per person fell by 23.4 percent in real terms, on average, from 2009/10 until 2014/15. But the extent of total fiscal cuts varied dramatically across local authorities, ranging from 46.3 percent to 6.2 percent (see Innes and Tetlow, 2015). It is important to note though, that fiscal cuts were mainly implemented as de facto proportionate reductions in grants across all local authorities. This setup implies that reliance on central government grants is a proxy variable for deprivation, with the poorest local authorities being more likely to be hit by the cuts. This makes it impossible in the cross-section to distinguish the effects of poor fundamentals from the effects of fiscal cuts. This is why we highlight new work by Fetzer (2018), which focuses on the role of austerity in explaining Brexit. For now, ignoring causality, our results suggest that voters in local authorities experiencing more fiscal cuts were more likely to vote Leave.

## Which factors explain more of the variation in the Leave share?

Demography, education and economic structure, i.e. fundamentally slow-moving factors, explain more of the variation in the Leave share across the UK compared to direct measures of EU exposure e.g. through migration or trade exposure. The observation that connects this and other purely correlational exercises is that Leave supporting areas stand out by being more deprived; having lower levels of income and life satisfaction; having fewer high status-jobs and an overall weaker economic structure, and having an ageing demographic and lower levels of educational attainment (see also Alabrese, Becker, Fetzer and Novy, 2019).

Variables describing the socio-economic situation of the resident population in an area do a very good job of capturing the variation in support for Leave across the UK. Yet, the central question that these exercises cannot answer is what causally explains why voters in these areas were so prone to support Leave?

## Going beyond correlations: the role of austerity

The first part of the analysis is purely descriptive and suggests socio-economic correlates that are good proxy variables for the characteristics of areas that supported Leave. The key concern with this analysis is that it fails to explain the causal factors through which the prevalence of a low educational profile of an area's population, and other features, became so tightly related with support for Leave. While Euroscepticism has been more prevalent and for longer in the UK, in comparison to other European countries, the factors that induced some voters to adopt Eurosceptic positions in recent years are important as it was probably these voters who tipped the scale in favour of Leave.

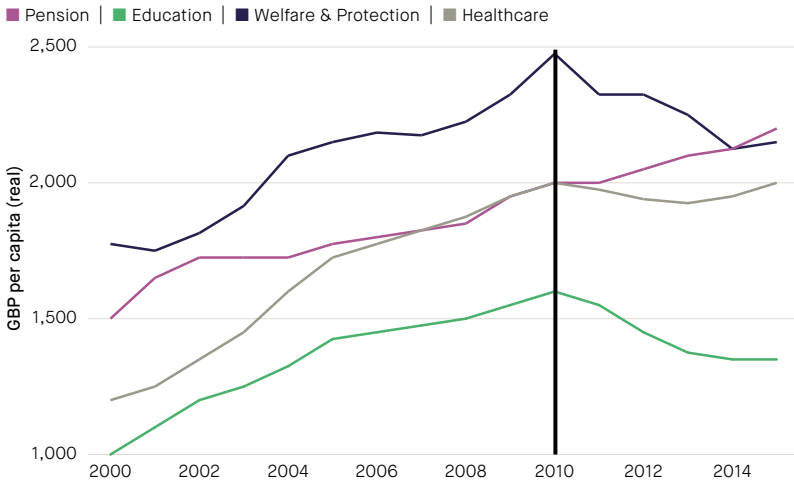
A recent paper (Fetzer, 2018) presents evidence that austerity measures since 2010 may have had substantive impacts on the referendum, pushing undecided voters towards UKIP and Leave. The welfare reforms since 2010 may provide the link that the early cross-sectional analysis of the referendum result uncovered: areas with weak socio-economic fundamentals were much more prone to support Leave. Many residents in these areas were affected by the austerity-induced welfare reforms.

### Austerity since 2010

The effects of austerity since 2010 were widely felt. Aggregate figures suggest that overall government spending for welfare and protection contracted by 16 percent in real per capita terms (see Figure 3 below), reaching levels last seen in the early 2000s. While the NHS was ring-fenced from direct cuts, the rapidly ageing population induced significant increases in demand for healthcare, worsening the quality and access for many and contributing to the now regular winter crises.

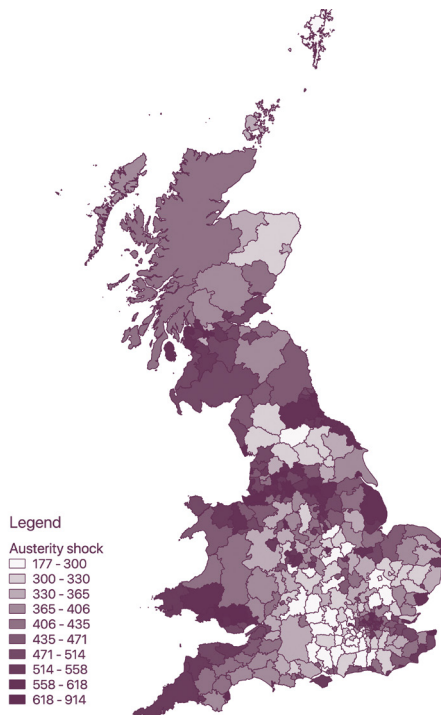
Furthermore, overall public spending on education also contracted, while spending on pensions steadily increased in real terms – a dramatic shift in the overall composition of government spending.

Figure 3: Overall public sector spending in GBP per capita (real). Data are from HMRC and ONS



At the level of local authority districts, spending per person fell by about 23 percent in real terms between 2010 and 2015 and the poorest areas were hit the hardest, with spending falling by as much as 46 percent in some areas (Innes and Tetlow, 2015). In 2013, it was estimated that many of the measures included in the Welfare Reform Act of 2012 would cost every working-age Briton, on average, about £440 per year. The impact was far from uniform across the UK, as shown in Figure 4. Financial losses varied from around £914 per working-age adult in Blackpool to just above £177 in the City of London. The most deprived areas were most severely affected by the cuts, as they had the highest numbers of people receiving benefits to begin with.

**Figure 4: Distribution of austerity shock simulated by Beatty and Fothergill (2013) and used in Fetzer (2018). The measure is expressed in financial losses per working-age adult per year**





## Linking austerity with support for UKIP and Leave

The empirical analyses in Fetzner (2018) are among the most comprehensive that studied UKIP and support for Leave. Exploiting data from all electoral contests across the UK since 2000, together with detailed individual-level panel data, the research documents a robust and close link between austerity and support for UKIP. These effects only become present after the austerity measures took effect in 2010 and the timing of the effects is consistent with individual welfare reforms being implemented.

The austerity-induced increase in support for UKIP is sizeable and suggests that the referendum could have gone the other way if not for austerity. Estimates suggest that in districts that received the average austerity shock, UKIP vote shares were on average 3.58 percentage points higher in the 2014 European elections and 11.62 percentage points higher in the most recent local elections prior to the referendum, compared to districts with little exposure to austerity.

The close link between UKIP vote shares and an area's support for Leave implies that Leave support in 2016 could have been up to 9.51 percentage points lower had the austerity shock not happened, which could have swung the referendum in favour of Remain.

These effects are detectable in aggregate voting data and when looking at how individuals' political preferences shifted after a benefit cut. For example, one welfare reform was the bedroom tax. It involved reductions in housing benefits for those living in social housing judged too large for their needs (with an 'excess' bedroom). The results suggest that households exposed to the bedroom tax increasingly shifted to support UKIP and experienced economic grievances as they fell behind with their rent payments due to the cuts. Some ended up having to move to less spacious housing.

Further, dissatisfaction with the political status quo grew distinctly among the population affected by welfare cuts. These respondents were increasingly likely to express that public officials do not care, that they have no say in what the government does and that their vote does not matter. Each of these factors is strongly related to support for Leave.

Thus, the paper argues that austerity – by curtailing the welfare state – has likely activated a broad range of long standing economic grievances.

### The economic origins of austerity-activated grievances

Economic distress been linked to increasing support for right-wing political platforms world-wide (see Dehdari, 2018). Identifying and quantifying the relative contributions of different factors that cause the underlying economic grievances, especially among the low-skilled, is an active field of research.

For example, Colantone and Stanig (2018) suggest that trade integration with low income countries has hurt areas in the UK that produce manufactured goods by intensifying competition, which is why voters in these areas have been more likely to support Leave. Similar evidence linking economic hardship that is due to trade integration to populist or extreme voting is being documented in the context of the US and Germany (see Dippel et al., 2015, Autor et al., 2018).

Similarly, evidence is mounting that some forms of immigration have small but detectable effects on labour markets by curtailing wage growth at the bottom end of the wage distribution (for evidence from the UK see Becker and Fetzer, 2018 or Dustmann et al., 2013).

Automation may also suppress wage growth among the low-skilled by reducing demand for low-skilled workers (Graetz and Michaels, 2018). In the historical context, this type of (manual) labour-saving technological progress has been linked to political unrest (Caprettini and Voth, 2015). The rise of the gig economy, zero-hours contracts and other forms of underemployment may also push people to depend on the welfare state to top up salaries (Bell and Blanchflower, 2018). Each of these factors is likely to exacerbate the economic gap between the well-educated and those with low human capital – a phenomenon referred to as the growing skill bias (see Card and DiNardo, 2002) in labour markets.

The natural implication is well known to economists: trade integration and globalisation are complementary to the welfare state. There are people who suffer from globalisation, so to maintain support for open trade there must be a policy response to assist those who are made worse off. There is currently a lot of demand for relief in the areas of the UK that have been hardest hit by a combination of globalisation and austerity. In these areas social services and social infrastructure would benefit from increased funding, with support for job seekers, education, housing and community health all possible targets for increased government support.

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## INEQUALITY AND POPULISM

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Populist anti-immigrant parties and candidates are attracting attention and gaining prominence across the Western world. In France the National Front received a record-breaking 11 million votes in the 2017 presidential election, while the Austrian Freedom Party lost the second round of the 2016 presidential election by a mere 31,000 votes. In the UK, anti-immigrant sentiment and opposition to the free movement of people within the EU contributed to the Leave vote, setting the country on the uncertain path to Brexit (Ballard-Rosa et al., 2018).

The mechanisms driving this electoral shift remains a topic of intense debate. One line of research emphasises the role of distributional conflict over economic goods such as jobs and social benefits: faced with the ostensible prospect of a shrinking pie and more seats at the table, self-interested voters may be drawn to parties that advocate restricting immigration and preventing immigrants from accessing jobs and social benefits. The Leave campaign emphasised large waves of immigrants straining the resources of this ‘small island’. The welfare state was a particularly salient issue in the pre-referendum draft agreement between the UK and the EU. Designed to undermine support for the Leave vote, the agreement proposed to limit immigrants’ access to benefits: “[Newly arrived immigrants] will not get full access to our welfare system for four years,” David Cameron proposed. “No more something for nothing. People can come to our country but they will not get out of our welfare system until they have paid in.”

But a focus on resource competition and distributional conflict misses the forest for the trees. Scholars have argued that such welfare-centric rhetoric is better understood as the expression of parochialism and xenophobia: voters seek to exclude immigrants not out of self-interested economic concerns but out of concerns for growing cultural and ethnic (dis)similarity (Inglehart and Norris 2018, Edsall, 2014; Seymour, 2014, Ford and Goodwin 2010; Cutts, Ford and Goodwin 2011). Here, the

intersection between the welfare state and immigration is a direct consequence of strategic out-group bias that has been encouraged by political elites for electoral gains (Alesina and Glaeser, 2004).

We believe this conclusion is premature, especially when it comes to the recent success of anti-immigrant parties in Europe. In our project, we examined the role of economic concerns, more specifically, the role of concerns about immigration's negative effect on the fiscal sustainability of major social programmes (the welfare channel). Given the general scepticism towards any economic interpretation of anti-immigrant sentiment, our goal in this project was to design a test that would provide clear evidence in favour of, or against, the welfare channel.

### Austria's public housing programme

To do so, we focused on Austria's public housing programme. This provides high-quality housing to one in four households in Austria, targeting middle and lower-middle class households. It is very different from public housing in places like the United States or, since the late 1980s, the UK, where public housing is designed to meet the housing needs of the worst off. In these countries, low-income households are over-represented among beneficiaries of public housing and an increase in income can result in having to move out of publicly-owned dwellings. This is not true in Austria: the income threshold for accessing public housing is very high (80 percent of the population qualifies); individuals without a stable income cannot access public housing, and those who experience an increase in income are not required to move out. In Vienna, where nearly half of the housing stock is run by a public housing programme, renting a publicly owned dwelling is as attractive as home ownership. Indeed, being a beneficiary of such a programme implies secure high-quality housing at below market rates.

In 2006, a legal decision at the EU level forced Austrian municipalities to open public housing to foreign residents. By expanding the pool of potential beneficiaries, the ruling sharply increased demand for public housing and placed the programme under fiscal stress. It also generated a clear distributional conflict (over the fixed resources) between newly eligible immigrants and a politically relevant share of native voters. We examine whether support for populist anti-immigrant parties has increased among municipalities most affected by the EU directive. The results suggest a clear relationship between the intensity and prevalence of distributional conflict over public housing and support for anti-immigrant parties in the 2006 legislative elections. In municipalities most affected by the reform, our results suggest that the increase in the Far Right's vote share was 59 percent higher than expected given historical trends. Moreover, this pattern persisted into the 2008 legislative elections, pointing to a sustained term effect of distributional conflict over in-kind social benefits. An analysis of neighbourhoods in Vienna offers additional evidence regarding the effect of distributional conflict in a highly-politicised case. Our results indicate that support for anti-immigrant parties was elevated by an additional 5 percentage points in the most affected neighbourhoods.

### Social transfers and distributional conflict

There are accounts that dispute the contemporary relevance of distributional conflict. Our results, however, demonstrate how pressure, induced by immigrants' receipt of benefits, can foster an anti-immigrant backlash. And although there hasn't been a similar change in immigrants' conditions for accessing social benefits in the UK, meaning we cannot do a similar analysis, we can draw several conclusions from this Austrian case study. Public housing, as an in-kind social transfer, does not benefit the middle class in any unique way. Another candidate is public healthcare such as the National Health Service. Becker et al. (2017) show that recent waves of Polish migration settled in rural and peri-urban areas where public services have been chronically under-provided. Consistent with the argument outlined in this paper, they demonstrate that lower-quality NHS service provision is associated with support for Brexit.

## Findings

According to our findings, anti-immigrant sentiment is relatively more developed among poorly educated voters and this can be explained as much by this group's authoritarian and ethnocentric orientations, as it can be by its higher reliance on in-kind social transfers. Absent the former, a narrative that presents immigrants as responsible for resource scarcity would most likely not have as much leverage. Absent the latter, the political consequences of immigration-induced fiscal stress are likely to be subdued. If anti-immigrant sentiment is exclusively interpreted as evidence of prejudice in a context where fiscal adjustment has become a credible threat, this potentially disregards underlying grievances about access to social transfers. With that in mind, Cameron's emphasis on the partial privatisation of the NHS to balance the government's budget might have fostered anti-immigrant sentiments that were rooted in concerns about the fiscal sustainability of the NHS.

Our findings can also help explain how a migration shock induced by EU enlargement might have fostered support for leaving the EU. Polish immigrants are overwhelmingly white and Christian, and often highly skilled and very quick to learn English. This is the type of immigration shock that, according to theories that emphasise concerns about diversity, should be the least likely to foster a backlash. In contrast, our findings highlight the potential role of fiscal stress and the NHS in fostering opposition to immigration and support for Leave, independent of the Polish minority's potential to culturally integrate into UK society.

Finally, our findings also provide a new take on the relationship between support for anti-immigrant populist parties and the welfare state. According to Swank and Betz (2003), a comprehensive and generous system of social protection lessens economic insecurities induced by free trade and globalisation and consequently weakens support for far-right parties (see also Garrett (1998) and Rodrik (1997)). In contrast, we show that distributional conflicts between immigrants and natives over a generous in-kind programme, such as public housing in Austria, can increase anti-immigrant sentiment and by extension support for far-right parties.



We see at least three policy implications from our findings. First, politicians need to be aware of the mechanism documented in this paper when arguing for austerity. In a context of a large inflow of immigrants, they could end up accidentally fostering a large anti-immigrant backlash. A second implication has to do with social policy design. Social benefits can be provided in-cash or in-kind (e.g. school or housing vouchers versus publicly provided education or housing). Because the consumption of in-kind transfers is geographically bounded and their supply is constrained in the short-run, they are especially prone to promoting distributional conflict between immigrants and natives (Dancygier 2010). Political leaders therefore need to be aware of a given programme's propensity to foster an anti-immigrant backlash. Finally, while local politicians have long been keenly aware of conflicts over in-kind benefits (Dancygier 2010), national leaders have often overlooked this issue.

This is very apparent not only in the UK, but most importantly within the EU. On the one hand, the Commission and countries like Germany or France adamantly defend the free movement clause. On the other hand, there has only been a limited attempt to debate social policy (and the fiscal implications of immigration) at the EU-level: debates over conditional access to the welfare state are currently taboo among European leaders. Cameron's attempt at limiting immigrants' access to the welfare state might have been a last ditch and half-hearted attempt at placating people's growing hostility toward the EU, but dismissing it as mere pandering to xenophobic tendencies would be premature.

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## REDISTRIBUTION AND IMMIGRATION IN WESTERN EUROPE

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On 28 April 2010, after the last of the prime ministerial debates in the UK, there was hope in the Labour Party. A resurgent Conservative Party and more importantly the increased popularity of the Liberal Democrats, were certainly significant concerns. But Labour had won the previous three general elections and Gordon Brown (Chancellor of the Exchequer under Tony Blair and Prime Minister after his resignation), in spite of being in the middle of the Great Recession, had shown a mastery of economic issues not matched by his opponents. This all changed, however, in an unscripted interaction with a pensioner in Rochdale.

According to *The Telegraph*, Gillian Duffy, a 65-year old pensioner and former council worker, “had been talking to reporters at the back of a crowd observing Mr Brown’s visit to a community pay back scheme, where offenders were picking up litter, when Sue Nye, his long-term aide and gatekeeper summoned her over to discuss her concerns with the Prime Minister.” Mrs Duffy expressed strong views about immigrants receiving welfare and Mr Brown responded with some general statements about the benefits of immigration.

That could have been the end of this episode. Again according to *The Telegraph*, after the conversation with the Prime Minister, “Mrs Duffy had said that she had been happy with Mr Brown’s responses and would be voting for him. She said their conversation had been ‘very good,’ adding: ‘seems a nice man’.” Gordon Brown, however, had got into his car and, unaware that he still had his microphone on, could be heard telling an aide: “That was a disaster... Should never have put me with that woman. Whose idea was that?” The aide asked what Mrs Duffy had said, and Mr Brown replied: “Everything. She was just a sort of bigoted woman. She said she used to be Labour. I mean it’s just ridiculous.”<sup>1</sup>

<sup>1</sup> The transcript of the conversation between Brown and Duffy and the subsequent conversation between Brown and the aide in the car can be found here: <http://tinyurl.com/ybfgwxdx>

The importance of Brown's Rochdale moment is difficult to quantify, but even five years later, as the UK prepared for another general election, Gillian Duffy was referred to as "the pensioner who helped torpedo Gordon Brown's re-election chances" (*The Observer*, Sunday 22 February, 2015). In 2015 a new leader of Labour was elected after another electoral defeat, prompting the following editorial assessment in *The Observer*: "Nothing better crystallises Labour's problem with this [i.e., immigration] than Gordon Brown's comments about Gillian Duffy in 2010. Labour has never shaken off its image as a party of the London liberal elite that simply doesn't get the stresses and strains – economic, but also cultural – that have come with globalisation, the changing structure of our labour market and immigration" (19 July, 2015).

Brown's electoral defeat in 2010, and his inevitable resignation as the leader of the Labour Party, did in fact promote a new perspective on immigration and the welfare state. Inspired by the work of Maurice Glasman, Ed Miliband's leadership turned the party towards 'Blue Labour.' Lord Glasman was part of what was described then as Ed Miliband's 'long-term strategy group'<sup>2</sup> and advocated de-emphasising the focus on the traditional welfare state while adopting more restrictive positions towards immigration. While the particularities of Brown's Rochdale moment and 'Blue Labour' are perhaps specific to the UK, they represent a general set of concerns affecting politics (and particularly the strategies of Left parties) everywhere. More importantly, the episode summarised above illustrates the political relevance of one of this policy report's central themes: the importance of redistribution to politics, and the relationship between immigration (and ethnic diversity) and the demand for redistribution.

### Redistribution, income and immigration

Many politicians, the popular media, and most casual observers of politics would agree that an individual's relative income (i.e., whether he/she is rich or poor) affects his/her political behaviour. This policy report addresses one of the assumptions underlying most arguments about the importance of economic circumstances to political outcomes. If income matters to individual political behaviour, it seems reasonable to assume that it does so through its influence on redistribution and social policy preferences. These

<sup>2</sup> See, for example, the *New Statesman* of July 20 2011.

redistribution preferences may (or may not) then be reflected in party positions and, eventually, government policy. Thus, the determinants of redistribution preferences are a topic in need of closer study.

The importance of income as a determinant of redistribution preferences varies. The rich support redistribution less than the poor almost everywhere in industrialised democracies, but the strength of this relationship is hardly consistent (very significant in the US, for example, quite weak in Portugal).<sup>3</sup> We develop three related points in this paper. First, we argue that material self-interest and other-regarding concerns should be integrated. In terms of the influence of relative income, we adopt a slightly modified version of the model proposed by Romer (1975) and Meltzer and Richard (1981). Second, we argue for the importance of something that we will call parochial altruism. We consider other-regarding preferences an important motivation for individuals: people derive moral benefits from supporting redistribution but, we argue, these moral benefits depend inextricably on the identity of the poor. People are more altruistic when the people receiving the benefits are similar to those financing them. Third, we argue that the material benefits of redistribution dominate the preferences of the poor, while the rich can afford to be altruistic. Combining the second and third points above, we will show that group homogeneity magnifies (or limits) the importance of altruism for the rich.

We propose that a significant determinant of redistribution preferences is the difference between an individual's income and the mean (average) in his/her country. The lower below the mean the income is, the more an individual gains from redistribution and the stronger we expect his/her support for it to be. The higher above the mean, the more an individual loses from redistribution and the weaker we expect his/her support to be.

The possibility that other-regarding concerns influence redistribution preferences has received increasing amounts of attention in the literature. In our research, this pertains to the willingness of individuals to make sacrifices in order to realise welfare gains for those who are worse off. We build on a significant recent literature exploring the role of identity in the formation of preferences for redistribution. We emphasise the connection

<sup>3</sup> See Dion (2010), Dion and Birchfield (2010) and Beramendi and Rehm (2016).

between altruism and group homogeneity: other-regarding considerations are bounded by racial, ethnic or religious splits. While positive inequity aversion implies that an individual's utility will increase as the poor benefit from more redistribution, identity arguments emphasise that this may depend on who the poor are. Perceiving the poor as different, these arguments suggest, detracts from altruism.

While arguments about self-interest imply that support for redistribution will decrease with income, conceptions of altruism and identity imply there are moral benefits attached to the promotion of equality within in-group members. To integrate the arguments about these two distinct dimensions, however, we will argue that a hierarchy of preferences exists. We propose that poor people value redistribution for its material consequences. Rich people, on the other hand, are less significantly affected by their immediate material self-interest. For the rich, altruism can become more relevant.

### Immigration and demand for redistribution in Western Europe

We analyse regional data from the European Social Survey. Our sample covers 129 European regions in 14 countries between 2002 and early 2009.<sup>4</sup> Our analysis uses measures of: redistribution preferences eliciting a respondent's support for the statement 'the government should take measures to reduce differences in income levels' (on a five point agree-disagree scale with labelled answer categories from 'Strongly agree' to 'Strongly disagree'), net household income (an individual's income distance to the national mean), and the share of foreign-born population in each region.

<sup>4</sup> In this section, we summarise the analysis in Rueda and Stegmueller (Forthcoming).

**Figure 1: Predicted probabilities of redistribution support as function of income distance and regional-level heterogeneity in Western Europe**

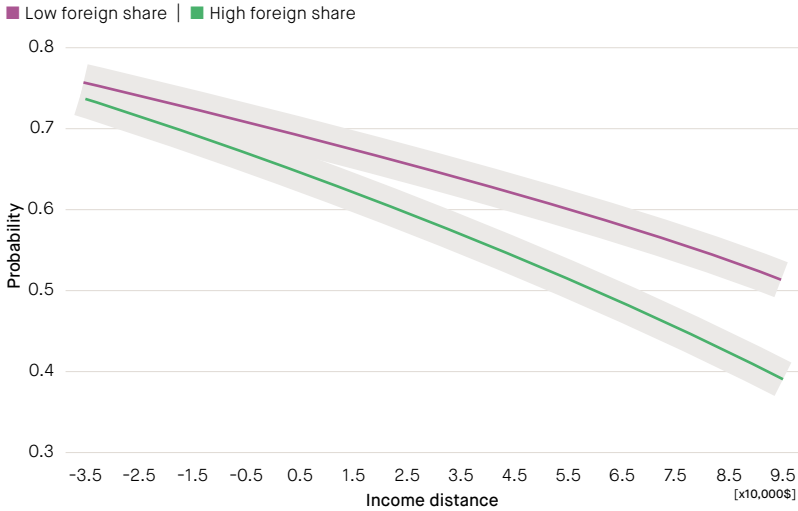


Figure 1 shows average predicted probabilities for supporting redistribution for individuals living in regions with low and high shares of foreign-born population.<sup>5</sup> A high share of foreign-born refers to the 90th percentile of the regional distribution, while a low share refers to the 10th. We calculate predicted redistribution support over the range of income in our sample and plot predicted values together with 90 percent confidence intervals. Figure 1 reveals a pattern close to our theoretical expectation.

## Conclusion

In making a distinction about the influence of altruism and group homogeneity on the poor and the rich, the arguments in this policy paper challenge some influential approaches to the politics of inequality. The first relates to the role of altruism in political economic literature, while the second addresses population heterogeneity in Europe (and the US). The future of the welfare state has come under increasing pressure from immigration and ethnic heterogeneity. A comprehensive welfare state, the argument goes, was possible in Western European countries because of

<sup>5</sup> See details of the estimation in Rueda and Stegmueller (Forthcoming).

homogeneous societies. More ethnically heterogeneous societies are expected to display lower levels of support for redistribution (see, for example, Alesina and Glaeser 2004; Freeman 2009). Migration has produced an ‘Americanisation’<sup>1</sup> of European welfare politics by making the poor less likely to support redistribution (even though they benefit economically from it) because of non-economic concerns (cultural, values, etc) related to population heterogeneity. The analysis presented above challenges these arguments. The significant differences in support for redistribution in Western Europe have little to do with the poor (who consistently support redistribution regardless of population heterogeneity) and a lot to do with the differential altruism of the rich.

For the UK, this information is integral to the conversation the country is having about immigration, welfare and redistribution. Arguably one of the major drivers for many Brexit voters was a perception that public resources were being stretched by immigration and a desire, therefore, for the UK to have the power to control it. An important dimension of Brexit in the UK, but also of the general increase in populism experienced by most industrialised democracies recently, has to do with the link between immigration and both redistribution and the provision of public services. The findings in this policy report contain an optimistic message: the poor’s support for redistribution is not as affected by immigration as some may fear, and a pessimistic one: the support of the affluent is, and this makes a cross-class coalition to mitigate the costs of globalisation difficult.

<sup>1</sup> This term has been used by Freeman (2009: 61) who argued that migration “has reduced the political clout of those social strata that have traditionally been the chief source of support for welfare state development, and it has contributed to the erosion of the political consensus on which the welfare state rests. It has led to the Americanisation of European welfare politics.”



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## BREXIT WAS A CRY OF FINANCIAL PAIN AND NOT THE INFLUENCE OF THE OLD

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What determined the decision by UK voters to leave the EU is a topic of wide debate. In particular, the idea that the vote reflected discontentment and disillusionment has been widely discussed in the UK and European media. A large part of the media, both print and broadcast, suggested that the decision to leave the EU was forced on the country by special groups, in particular older voters swamping the views of the young and discontented citizens overwhelming the views of others.

The search for answers is reflected in the academic literature. Some have emphasised the concept of a divided nation (Dorling 2016, for example). Hobolt and de Vries (2016) explore the scepticism towards EU values, and Ginsburgh, Moreno-Ternero and Weber (2017) the probable cultural and economic repercussions of Brexit. The majority of the early empirical studies pointed to economic forces and immigration-related factors (for example, Clarke, Goodwin and Whiteley, 2017; Goodwin and Milazzo, 2017) although interestingly Becker et al. (2017) argue that exposure to immigration was not particularly important, but that economic forces and deprivation were more powerful. Other contributions emphasise the effect of education. Hobolt (2016) showed that Brexit was favoured by less-educated, poorer and older voters, and those who expressed concerns about immigration and multi-culturalism. Along similar lines, Goodwin and Heath (2016) attributed Brexit more specifically to those left behind due to poverty and a general lack of education and opportunities.

Some quantitative social science literature (including Di Tella and MacCulloch 2005 and Liberini et al. 2017) uses happiness data to try to understand political decisions. Liberini et al. (2017, LOPR henceforth) analyse what determined the answer ‘Leave the European Union’ to the question: ‘Should the United Kingdom remain a member of the European Union or leave the European Union?’ Approximately 8,000 citizens responded to this question in the last wave of the Understanding Society survey between January and June 2016. The analysis in LOPR produces two results that merit attention.

### The effects of unhappy feelings

First, there is evidence in LOPR that feelings of unhappiness contributed to Brexit. However, the key channel of influence was not through general dissatisfaction with life, but through a person’s feelings about his or her own financial situation.

By focusing on the following two questions (asked of respondents in the Understanding Society survey), we show how discontentment can be incorporated into a statistical study.

#### **Question 1: An overall life-satisfaction question:**

*On a scale of 1 to 7 where 1 = ‘Completely Dissatisfied’ and 7 = ‘Completely Satisfied,’ please tell me the number which you feel best describes how dissatisfied or satisfied you are with the following aspects of your current situation.*

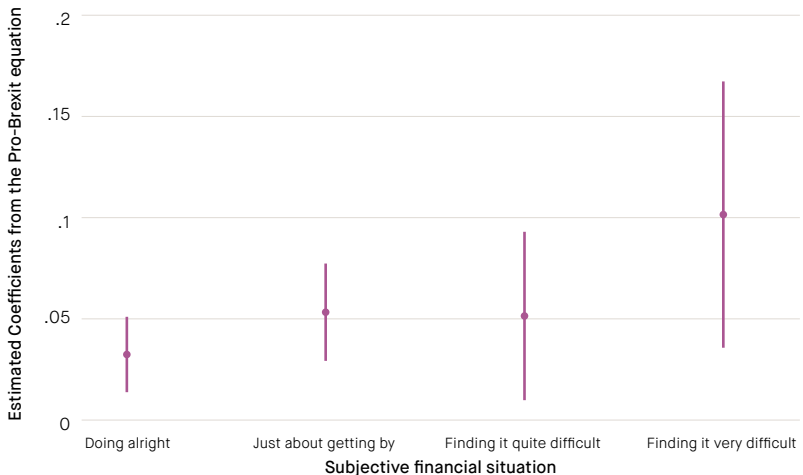
#### **Question 2: People’s feelings about their financial situation:**

*How well would you say you yourself are managing financially these days? Coded from 1 (Living comfortably) to 5 (Finding it very difficult); (see figure 1).*

General dissatisfaction (Question 1) is predictive of a pro-Brexit position to a limited extent. LOPR finds that it was only a small number of completely-dissatisfied citizens (this extreme answer was given by only 2 percent of the UK population) who wished disproportionately, in a statistically significant way, to leave the EU.

On the other hand, Figure 1 shows that there was a strong pattern between a respondent's feelings about their finances (Question 2) and their likelihood of voting Leave. Unlike the pattern for the life-satisfaction scores, here a steady increase in the coefficients is noticeable. From left to right, people felt steadily less happy with their financial situation and were progressively more likely to favour leaving the EU. The implied sizes were fairly substantial. For example, UK citizens who felt things were very difficult financially were approximately 13 percentage points more likely (than those who feel their finances are comfortable) to be in favour of leaving the EU. Overall, LOPR's statistical analysis suggests that financial feelings were amongst the strongest correlates with citizens' views on the desirability of Brexit.

**Figure 1: The Financial-Feelings Profile of Those Wishing to Leave the EU (as calculated from a Brexit equation: Column 2 of Table 3 in Liberini et al., 2017) (95 percent CI shown)**

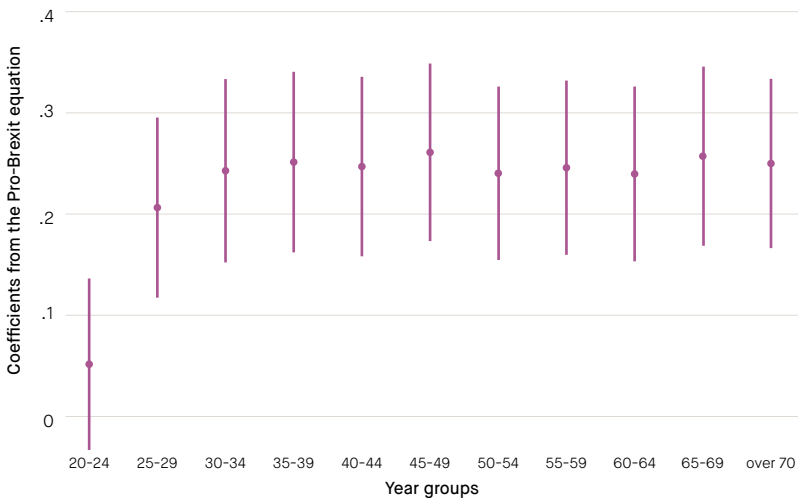


Note: The vertical axis is a measure of the probability of wanting to leave the EU. On the horizontal axis, living comfortably is the baseline.

### The effect of age

Despite what some commentators suggested, LOPR estimates the Brexit decision was not caused by the old. Looking at figure 2 – featuring in the vertical axis a measure of support for Brexit – we note that the Understanding Society data suggests that only the very youngest UK citizens – those under the age of 25 – were substantially pro-Remain. Between their late 20s and their 70s, people who live in the UK had almost indistinguishable views on the desirability of EU membership. Therefore, the data suggest that Brexit was not, in a general sense, caused by old people.

Figure 2: The Age Profile of Those Wishing to Leave the EU (as calculated from a Brexit equation in Liberini et al., 2017, Column 1 of Table 3) (95 percent CI shown)



## The effect of other individual characteristics

Some other patterns emerged. Consistently, along with the rest of the literature, LOPR found a strong association between advanced qualifications and favouring Remain: having a university degree or equivalent made people more likely to vote Remain by 16 percentage points. People with children were less likely to want to leave the EU, by 4 percentage points. There is also evidence of an ethnic influence: those who classified themselves in the survey as white British were somewhat more likely to vote for Brexit, by 6 percentage points. Interestingly enough, being unemployed only had a small positive or no effect on the decision to leave. Being married had no significant effect. Finally, and perhaps against some commentators' intuitions, living in a rural area had no discernible consequences. The study also highlights some regional differences in the preferences towards Brexit, where Scotland emerges as being the most pro-EU. There is evidence of a general upward trend in pro-Brexit attitudes through the year of 2016.

## Conclusion

There are two new findings in the LOPR study. First, unhappy feelings contributed to Brexit. However, the key channel of influence was not through general dissatisfaction with life. It was through a person's narrow feelings about his or her own financial situation. Second, Brexit was not caused by old people. Only the very young were substantially pro-Remain.

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