Popular understanding of the economic effects of Brexit: alienation and structured ignorance in capitalism

Research note

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Three main issues have shaped popular attitudes to Britain's membership of the EU: immigration; the specifically political aspects of spatial-state structures (Leavers wishing for 'British national sovereignty', Remainers supporting 'the European political project'); and the economic effects of EU membership. I have discussed the first two of these in a previous blog ('Brexit, xenophobia and left strategy'). In this article I consider popular understanding – or lack of it – of the implications of Britain's EU membership for the economy as a whole, for industries and firms, and thus for employment.

I am concerned here not with the understandings, ideologies and interests of capital in EU membership, important though this is (see blog 'Fuck business: capital, Britain's EU membership, and the Conservative Party'). Rather, I examine here a more pressing issue for the left: the understanding of the economic implications of Brexit by the 90%, the working class in the Marxist sense. Uniquely in parliamentary democracy, the decision on EU membership implies an understanding of the national and international economies as wholes. Governments' economic policies normally involve discrete aspects or sections of the national economy (industrial policies, government spending, training policy, regional policy, etc). This decision, in contrast, concerns the whole economy. It therefore poses particularly acutely the (lack of) understanding of economics among the public.

Popular understanding of economics

I start by a brief consideration of the understanding of production and investment of ordinary people in a mature capitalist country like Britain. Surprisingly, this is a question which left academics and commentators have, to my knowledge, hardly analysed (if any reader knows of such analysis, I would love to hear of it).

Serviceable popular understanding of the economy mostly concerns those aspects of it in which people make individual or household decisions, and where those decisions can have immediate effects – in other words, most non-academic understanding of society is action-oriented. In contemporary Britain these understandings are also inflected by neoliberal ideas. I therefore suppose that popular understanding consists of something like the following points. (I indicate in brackets roughly where these common sense understandings fall in economic theory.)

* Keeping a job relies on subordination to management within the labour process, and getting a job depends on demonstrating willingness to do this (this is the common sense version of Marx's notion of exploitation);

* Medium term changes in wages in particular jobs are a function of supply and demand for that kind of labour (and in a few cases, of trade union action). Expected wages are thus largely determined by the labour market (neoclassical economics).

* A corollary of the previous point is that an increase in migration to Britain, or to a particular locality, tends to reduce wages.

* Employment in a firm rises as profits rise and falls as profits fall (a simple Keynesian and Marxist point).

* Investment in fixed capital by a firm tends to lose jobs at least in the short term (labour saving technologies) (neoclassical economics).

* Competition between firms proceeds essentially through cost- and price-minimisation. Thus firms compete through cutting their costs in situ, or by relocating to low cost locations, especially in the Third World. And they compete in final markets is by offering the lowest price (neoclassical-economic competition; Ricardo).

* The price of a particular consumer commodity (apples, houses) in the short or medium term is governed by supply and demand (neoclassical economics).

All of these are subjects which are commonly discussed within households, among friends and work colleagues (a sign of some understanding). Note that only two of these areas of understanding are directly relevant to the question of membership of the EU: the link between profits and jobs, and the dynamics of capitalist competition. I return to these below.

What, then, of popular understanding of investment and production in national and international economies? We should register, again, that popular understanding of economics is action-oriented. Working people, by definition, lack any (direct) control over and their regulation by investment and production the state: these things appear as the decisions of capital, ideologically presented as decisions of 'markets', thus of an alien force. Capital appears as a thing, with its own dynamics divorced from human choice. As Marx argued in Capital Vol 1, value is a reified form of (intentional) human labour, and capital, as accumulated value, as a reified power confronting the working class. The actual influence of the collective working class and its struggles on capital is almost entirely invisible. Apparently lacking any control over investment and production, individual workers, and even workers' collectives such as trade unions, have *no reason to think* about the processes which shape investment. Lack of understanding of investment and production is thus a function not of poor education or misinformation but of the lack of control (power) of the working class over the dynamics of the economy.

To the extent that people understand the long term dynamics of national economies, they understand this as pure cost and price competition (neoclassical economics, popularised by neoliberalism). Long term growth of a national economy depends on reducing costs, particularly of labour, and lowering prices. This follows from the point noted above concerning popular understanding of capitalist dynamics. But this understanding is very partial, and thus false. Firms do not compete only through cost-cutting, but also through increased productivity and better product design; final market competition may include quality as well as price competition, especially in machine goods; accordingly, firms do not necessarily locate in the cheapest location; and firms cannot move their production to other locations (whether lower cost or not) in the short term because of sunk costs and socialisation of production in place (of which more below). These theoretical points concerning inter-firm competition are made by Keynesians and Marxists, and against neo-classical economists, but they are hardly understood by most people.

I will return below to look at these economic-theoretical points in the case of Brexit.

The institutional and temporal complexity of the issue

The difficulty of understanding the economic implications of Brexit is exacerbated by three of its features. First, Brexit can be done in a wide variety of modes. On the overall agreement there can be no-deal and dependence on WTO rules, remaining in a customs union, having a 'close relationship' to the Single Market (the Labour Party's policy), or the Norway model (remaining in the customs union and Single Market, free movement, but special arrangements for agriculture and fisheries). A trade agreement with the EU may involve goods, or services, or both. Understanding 'the impact of Brexit' depends partly on which model of Brexit is assumed. (The understanding that there are such different models depends on understanding the meaning of a customs union and the Single Market, a point to which I return below.) In the rest of the paper, however, I largely abstract from these differences in possible relations between Britain and the EU.

Second, expectations of the impact of Brexit can refer to a huge variety of different time frames: the days, weeks and months after Bexit; the medium term (1 – 4 years); the long term (5 years and more). For example, in the last year in particular, a large amount of public discourse has concerned the short term impacts of a no-deal Brexit (lorry queues at Dover, shortage of pharmaceuticals, etc). I am concerned here only with the long term impacts, since these are the most important to the future of the British economy and the jobs of Britons.

Third, the history of British imperialism in Ireland has produced the extraordinary situation that Brexit would produce a land border within Ireland between 'the United Kingdom' and the EU. This issue, completely absent during the referendum debate, has dominated debate on Brexit since May presented her agreement. Important though the issue is, it is tangential to my subject in this article.

Discourses of politicians, business and the media

If the majority of the population has no understanding of the dynamics of overall investment and production at the national and international scale, how has public discourse, during and referendum campaign and subsequently, remedied this lack of understanding? The short answer is: hardly at all. The gap in understanding of the economic effects of Brexit between professional economists and the rest of the population appears to have hardly narrowed since 2016. *Why* this has been the case is, however, not obvious. I will consider three types of public discourse. (i) 'Lies' told by politicians. (ii) Various forecasts of the economic impacts of versions of Brexit have been published. (iii) Individual corporations have said that their cuts to production or investment are due to the expectation of Brexit. I consider each of these discourses in turn. I argue that the credibility of the 'lies', and the lack of persuasiveness of the 'truth', are due to the public's lack of understanding of the underlying processes.

'Lies'

Remainers constantly point out that the Leave campaign in 2016 told lies, the most famous being that leaving the EU would save the British government £350m per week, which would then be spent on the NHS. Leavers point out that the Remain campaign in the form of the Chancellor George Osborne claimed that a Leave vote would cause an *immediate* economic crisis such that the government would have to enact an emergency austerity budget; this, too, was a lie: such a crisis did not occur (though stirling did devalue by 10%).

But pointing out that these were lies (or inaccurate) begs the question: what would the truth look like? This is not a simple question. First, we need to note that 'truth' here, as in all social questions, is not simply a matter of true *facts*. Isolated facts, even a lot of them, mean nothing without *interpretation,* which can show the *significance* of the facts to a social question. (Here I am following comrade Hegel, who made a distinction between 'knowledge' – roughly what I am calling 'facts' - and 'understanding'; the former on its own is superficial, and in the end useless.) For example, the fact is that the net contribution of the British state to the EU budget is roughly £250m per week rather than £350m (as pointed out at the time by the National Statistical Office). But so what? Is this a significant sum in relation to the British state's expenditure? How much would the British state's revenues be altered by leaving the EU? Are the expenditures and revenues (fiscal position) of the state the only, or even most important, issue? What about the private sector economy? In other words, the fact of the British state's net contribution to the EU budget needs contextualising, and setting within wider economic processes; on its own it is meaningless.

Economists' forecasts

In 2017-8 the government was pushed by parliament into producing predictions of the impact of Brexit on particular sectors. Since then, the government and a number of think tanks have produced various medium- to long-term forecasts of the GDP impacts of various models of

Brexit. These include forecasts for the economy as a whole and disaggregated by broad sector. Most of these forecasts predict a decrease in GDP taking place over a number of years; productions of decline in the economy as a whole are typically in the range 4 to 12%. Remainer commentators have cited these predictions to argue that Brexit will be economically disastrous, the Labour Party to argue for a customs union and a 'close relationship' to the Single Market, and organisations of capital (CBI, ID, Federation of Small Business, etc) to argue against a no deal Brexit.

The theoretical bases for these predictions are dubious. The predicted one-off hits appear to not have considered the negative cumulative causation caused by the unravelling of interdependent parts of the economy and economic-state, in other words, they lack dynamics. But in the context of this article, the important point is that the public has no understanding of *the processes* which underly these predictions, except perhaps a vague idea that trade barriers are involved. The predictions are therefore not convincing; they appear as numbers conjured out of thin air. The minority of the public which has followed economists' forecasts in the past, such as predictions of near-future growth rates, will know that these predictions are often wrong, sometimes grossly. Tory politicians who attack 'experts', including economists, therefore get an easy hearing. The problem, then, is again the lack of popular understanding of the underlying processes.

Corporations' actions and explanations

Individual corporations have said that their cuts to production or investment are due to the expectation of Brexit. The most prominent case is the car industry, where firms have suspended investment in British plants, transferred plans for new models to sites on the continent, and announced closure of sites, citing the disruption of just-in-time supplies from the continent and likely barriers to sales to the continent. The message has been somewhat muted by the corporations also citing overcapacity in the global car industry and the difficulties of switching to production of electric cars. Moreover, all car assemblers and their top level components suppliers are transnationals (all foreign owned with the exception of Jaguar), and they all have production sites in other EU countries to which British production can be moved, albeit with a large devalorisation of their fixed capital in Britain.

The localities where these plants are located mostly voted strongly to leave the EU; the actual or planned cuts may have caused some local people to understand more about the systems of international supplies and sales on which these factories depend. This increase in understanding may not have spread much beyond these localities, however. The car manufacturers' explanations have received small coverage in the mass media. People may dismiss these explanations as isolated examples. Some may see them as self-interested bargaining by the car manufacturers: in 2016-7 Nissan obtained a subsidy from the May government (of undisclosed quantity) after it warned that Brexit would result in reduced production in Sunderland.

A second case of corporations warning of disruption from Brexit is the City of London. Many of the major retail and investment banks located in London would be affected by the ending of 'passporting rights' to operate in the EU. Many have moved some operations to centres elsewhere in the EU. But their warnings have been muted. It is likely that their passporting rights will be maintained in any version of Brexit because of the importance of the City for non-British EU corporations. All these banks are transnationals and already have offices in other EU countries to which British operations and employees can be moved relatively easily; unlike car production this does not involve devalorisation of fixed capital. An important component of London finance, the hedge funds, is unaffected by Brexit. Perhaps most importantly, in terms of popular understanding of Brexit, high level London finance is of little interest to most of the population, since they will never have a job in the City. And particularly since the 2007-8 financial crisis, many people are actively hostile to the banks and therefore don't care if the City of London declines.

Notice in passing that the public statements of corporations, whether financial, manufacturing or commercial, appear to have been muted, and their influence on the Conservative Party limited, because they are transnationals, whether British or foreign owned (Edgerton, 2019).

My conclusion is that public discourses on the economic effects of Brexit have had little purchase on public consciousness because they have not explained the underlying processes, and because most of the public does not understand these processes. The question then is: what would an adequate understanding of these processes consist of? I first consider the EU's regulation of the economy. This is extremely complicated, and most people have very little or no knowledge of it. Moreover, the *significance* of this regulation cannot be understood without an understanding of economic-industrial dynamics, which I then consider.

EU regulation of the economy

Starting in the 1950s EC and widening and deepening from the 1980s, EU economic strategy has addressed a number of problems of advanced capitalism and its class relations. Central has been the promotion of economies of scale in production through deepening the division of labour between countries, enabled by removing barriers to trade between them. Development of the international division of labour and economies of scale has been promoted through international mobilities not only of commodities but also of capital and labour. In declining sectors, the EU has planned controlled shrinkage. In certain 'difficult' sectors the EU has had active sectoral policies, and for weak regions active regional policies. Because of the extremely spatially uneven development of the EU after enlargement to the southern and eastern European countries, and because of the spatial uneven development of devalorisation and investment promoted by EU policies themselves, there have been pressures from the working class for jobs and better wages and conditions. These pressures have been addressed through free movement of labour within the EU, regulation of the labour market, and via regional policy. There has also been pressure from the working class to address a variety of environmental harms. The above policies taken together have required the EU budget (revenue from and spending in member states) to make net transfers from richer to poorer member countries.[1]

This overall dynamic of the EU has given rise to a number of institutional forms and policy areas, which need to be known in order to assess the economic impacts of Britain's membership of the EU. Each aspect taken alone has specific class-political origins and implications, which I mention below.

Labour market regulation

These regulations exist partly due to pressure from the working class, and partly from sections of capital operating with moderate wages and conditions who wish to avoid competition from sweated labour elsewhere in the EU. Many significant rights of British workers derive from the EU.

Environmental regulation

Given the British state's egregious lack of action on ecological questions over decades, much regulation has been mandated by the EU. Examples include seawater and river cleanliness, acid rain, and poisons in urban air from motor vehicles.

Both labour market and environmental regulations of the EU are to the benefit of the majority of the population. But public knowledge of the EU origins of these regulations is very small: even at the time of introduction this origin is little known, given that neither governments nor the media have been interested in explaining these benefits of EU membership; the regulations have been introduced over a time span that means their origin has been forgotten even by those who knew them; and younger people have no way of knowing their origins.

These regulations are supported by social democrats and socialists. Strict neoliberals oppose them as 'interference in business'.

Customs Union

The customs union within the EU dates from the EEC in 1958. There are no tariffs or non-tariff (qualitative) barriers to trade in goods and services between member states. Moreover, the EEC/ EU as a block imposes a common external tariff and non-tariff conditions on goods and services entering the block. The EU as a block therefore negotiates trade agreements with countries outside the block. Only countries with which the EU does not have a trade agreement trade under WTO rules. The EU also represents the block in negotiations within the World Trade Organisation. External trade agreements are largely aimed at facilitating capital accumulation within the EU; but they can also have ecological or labour-rights aims, and may seek to enable the growth of certain industries in poor countries.

Single Market

The Maastricht Treaty of 1992 created the Single Market. This includes the customs union, but also mandates free movement of capital and labour between member states. The contentious issue of immigration from other EU countries is thus a part of the Single Market regime. Free movement of capital between states has been *interpreted* by the EU to restrict economic intervention by nation states: to restrict or prohibit state subsidy to firms, to minimise or remove conditions on contracting out of state services, and to allow foreign-owned corporations to acquire privatised state enterprises such as utilities.

The free movement of commodities (goods and services), capital and labour is argued for strongly and without exceptions by neoliberals, based on mainstream neoclassical economics. Keynesians and social democrats largely agree, though sometimes wish to restrict these movements in order to support particular industries, employment relations or commodity qualities. Most socialists see some aspects of the Single Market as beneficial: free movement of people allows workers to seek jobs and better jobs in other countries; free movement of commodities can make them cheaper or better; free movement of capital can mean inward investment to poorer countries, regions and localities. But socialists oppose to undercutting of wages and conditions by employers' use of labour originating in lower-wage countries; and oppose the restrictions on nation-state economic policies in the name of free movement of capital. Because only neoliberals support all aspects of the Single Market unreservedly, and because the latter is enshrined in a treaty, many on the left describe the EU since Maastricht as intrinsically and irrevocably neoliberal.

Industry policies

The two most important industry policies in terms of both the extent of regulation and EU spending are agriculture and fishing. Regulation of these industries is mainly aimed at supporting capital in them. It also has profound ecological impacts, which in the case of agriculture are mostly negative (promotion of high-chemical methods and monocultures, standardisation of crop varieties, destruction of environments to make them 'crop ready') and in the case of fisheries mostly positive (quotas to prevent extinctions).

The EU also has active industrial policy in the development of high-tech industries. In those which are very long term research effort with no evident commercial spin offs in the foreseeable future, research projects are wholly funded by the EU, which also coordinates the sharing of the associated employment by country: notably the development of nuclear-fusion energy, and a role in particle physics research at CERN. The pharmaceuticals industry is in effect regulated by the EU agency which licenses new drugs.

Regional policy

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Notes

1. (p.6) The creation of the Euro, and subsequently of monetary and fiscal policies within the Eurozone, have been a major element in the overall political economy of the EU. But since Britain has not adopted the Euro, I do not discuss these in this article.

References

Edgerton, D. (2019) The Brexit crisis has revealed Britain's place in the world, *The Guardian*, 9 October