Charting the Sources of Brexit: Lessons for Canadian-UK Relations

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Summary

What lessons does the Brexit referendum hold for developed democracies? We bring together a set of recent scholarly findings that examine the geographic variation in the Brexit vote. These studies portray the Leave vote as belonging to a larger class of events taking place across developed democracies in the last five years. Though these events differ in their particulars, they share a number of characteristics: in nearly a dozen countries, voters increased their support for political parties campaigning on platforms of isolationism, nationalism, and a retreat from binding international commitments. The result has thrown into question some of the achievements of post-WWII global governance, from the European Union to the World Trade Organization and the international climate regime.

A novel set of methodological tools have allowed scholars to zero in on the political geography of trade liberalization. We have long known that countries stand to gain from international economic integration on average, but that these aggregate gains may conceal considerable unevenness. What we have now learned is that these gains and losses tend to be geographically clustered, and that this regional concentration slows down adjustment to integration, making it more difficult for those “left behind” to catch up.

The result is a rise in economic anxiety in areas featuring industries that are exposed to import competition. These areas not only see decreased wages, but also a rise in authoritarian values and out-group hostility among individuals. Such cultural shifts, in turn, provide opportunities for political entrepreneurs willing to capitalize on these cleavages. The result is a consistent relationship between regional economic hardship in Western democracies and political gains by right-wing and radical parties over the past decade. Economic and cultural factors thus both play a role: import competition generates concentrated economic insecurity, but cultural identities determine the contours of the groups relevant to individuals’ calculations.

Governments can preempt this chain of events, by cushioning the adjustment costs of integration. This is the stated intent of programs such as the US’ Trade Adjustment Assistance (TAA) and the EU’s European Globalization Adjustment Fund (EGF), which target trade-impacted workers. The provision of these programs has been geographically uneven, and increasingly falling short over the last two decades. This shortfall has been consequential: those areas with the greatest trade compensation shortfall have also become more vulnerable to electoral pushback. We show how the UK has been consistently opposed to the EGF, and we describe the UK’s preferred passive labour market policies, which target systemic redundancies, regardless of their cause. These programs may have distinct political effects from more targeted alternatives, since they differ in the information they offer recipients on the causes of the economic shocks they seek to address.

We end by applying these methods to the case of Canada. No developed democracy is immune to the type of political pushback witnessed in the UK Brexit vote and the 2016 US election. We use firm-level data to allocate industries across Canadian regions, and then calculate each area’s import exposure. Our preliminary findings suggest great geographical heterogeneity in import exposure across Canadian provinces. Ontario and Québec stand out as being exposed to the highest levels of trade competition. We focus on urban areas in these provinces and show a suggestive negative relationship between import exposure and changes in land values, a possible early warning sign. We intend to test this relationship more fully using census data.

Popular accounts of the electoral upsets of recent years conventionally turn to either economic or cultural explanations, implying that these are mutually exclusive. In this report, we demonstrate how recent findings across political science and economics allow us to trace the particular interaction between cultural and economic factors that have contributed to these events.
Charting the Sources of Brexit: Lessons for Canadian-UK Relations

Introduction

What do we know about the origins of the Brexit vote? And what lessons does the Leave campaign hold for Canada, and for Canadian-UK relations? In this Knowledge Synthesis exercise, we take stock of a set of recent empirical findings examining pushback against global governance in a number of different Western democracies, and we apply them to the cases of the UK and Canada.

The first lesson of the Brexit vote is that international integration is not a one-way street. Until recently, it was often claimed that international economic liberalization and openness were self-reinforcing, since they empowered the social forces that favored them. Recent events have thrown into question such a teleological view of change. The United Kingdom, a country that was once the global flag-bearer for the free flow of goods and people across borders, found itself voting against integration and immigration. And the United States, which largely set up the architecture of global governance, is now seen as turning its back on a number of its key institutions.

The second lesson of Brexit is less obvious, and it concerns the geographical variation in the Leave vote, and what it can tell us about similar changes of individual political attitudes in other settings. Here, we are helped by a string of findings that first emerged from the US context, and that have since been replicated in the UK and a number of Western European democracies. We assemble these findings and take the first steps in extending the analysis to the case of Canada. This allows us to ask, to what extent is Canada vulnerable to similar pushback against economic integration? Exactly where in Canada might we expect such pressure to first appear? And what policy measures might be effective in preempting this pressure?

Background

The case for international economic integration has not changed much over the past three centuries. Decreasing the barriers to trade between states should lower prices and increase consumer choice, and allow states to reallocate capital and labor to those sectors in which they hold some advantage. More gets produced by fewer hands; the size of the world economic pie increases. But we have also long known that this process creates winners and losers: different groups end up with different slices of the pie. We also know that in capital rich countries that hold a relative abundance of high-skill labour, it is low-skill workers that are likely to be on the losing end, since they face competition for their skills from other countries that are abundant in low-skill labor. Overall, consumers and exporters tend to benefit from global integration, while those employed in import-competing industries may be worse off, at least in the short term.

How short that short term is has become the crux of the matter. In this respect, the last five years have seen a sea change in the economic consensus, starting with a series of papers by Autor, Dorn and Hanson, looking specifically at the US. The first distinctive quality of these studies is their geographic focus. The key takeaway is that the negative effects from economic integration tend to be
highly geographically clustered, and much longer lasting than anyone had previously thought: those areas that are most exposed to trade competition witness lower wages, and higher unemployment, even a generation later. That is, the country as a whole may still gain; but the areas that feature the greatest proportion of industries competing directly with cheaper imports appear to lose more, and for longer, than previously thought.

As follow-up work has shown, these effects are long-lasting in part because the government support that responds to the economic need in these areas is often not of the type that gets people back into the labour force. Individuals who lose their jobs to trade competition often fall back on early retirement and disability payments, rather than dedicated trade adjustment programs, even when those are available. And the sheer fact that economic pain is geographically clustered, rather than evenly spread out across a country, has an effect of its own in delaying adjustment: home prices in single-factory towns fall suddenly as the local industry suffers, which makes it harder for homeowners to move, which slows down the process of economic transition. Similarly, a number of social effects associated with trade competition have negative run-on effects, which further lengthen the adjustment period: in the US in particular, trade exposure has been shown to correlate with opiate abuse, as well as lower marriage and fertility rates.

Yet what concerns us most here is a series of studies that consider the political consequences of such geographically concentrated import exposure. Using the same methodological approach, which takes care to ensure that these correlations are not spurious and not caused by, e.g. underlying historical differences between regions, scholars have found that an area’s import exposure appears highly correlated with a number of consistent electoral outcomes: voting against incumbents in Western European elections; voting for the Republican party in the US; voting for more radical parties on both sides of the spectrum, but especially on the political Right; switching from voting for Obama in the US in 2012 to voting Trump in the 2016 election, and a shift towards right-wing positions among US legislators (Colantone and Stanig 2017a, Autor et al 2017, Kim and Pelc 2018, Feigenbaum and Hall 2017).

Most relevant to our present purpose, the same measure of import exposure appears highly related to support for the Leave campaign in the UK’s referendum on exiting the European Union (Colantone and Stanig 2017b). Figure 1 illustrates the relationship between import exposure and the Leave vote across the UK. To draw on an example from the authors of that last study, consider two regions from Wales, Cardiff and Gwent Valleys: the first experienced low import exposure (10th percentile), and the second saw high import exposure (90th percentile). The average relation between import exposure and support for Brexit across the country leads one to expect a 4.5% difference in the Leave vote (in fact, Gwent Valleys' Leave vote share was 16% higher).

The takeaway from this set of studies all employing a similar approach to a related set of questions is not only that economic insecurity experienced by those "left behind" by globalization can cause electoral upsets, but also that these effects tend to go in a single political direction. There is a systematic relationship between economic insecurity and support for the political Right, and issues usually associated with the right, like isolationist and nationalist party platforms. Observing these relationships, however, is not enough to explain them. Why would economic insecurity among those
on the losing side of global economic integration lead to support for the political Right? This is the question we turn to next.

**What Explains the Consistent Political Effect of Economic Insecurity?**

One persistent question is why the political Right appears to have consistently gained in recent decades from labour dislocation resulting from trade liberalization. After all, one might think that economic hardship, whatever its cause, would lead to demands for higher government welfare transfers, and that voting for leftist candidates would increase the odds of such transfers. One thinks of the Great Depression and the landslide victory in the United States of Franklin D. Roosevelt against Herbert Hoover in 1932, in an election that amounted to a referendum on the role of government in the economy, and which ushered in the New Deal, the United States' great experiment with social redistribution. Less well remembered is that beyond Roosevelt, far-Left candidates in that election also won record vote shares.²

In fact, this natural correspondence between international integration and domestic redistribution is the central expectation of a large scholarly literature that falls under the rubric of "embedded liberalism" (Ruggie 1982). As countries seek to further capture the gains to be had from trade and increased capital mobility, they should face greater demands to address the resulting domestic dislocations. And voters should be more likely to vote for the political parties that would offer it. Some thirty years of evidence showing that states with lower trade barriers also tend to have higher government spending has generally been taken to confirm this relationship.

Yet the strain of backlash has not only been anti-establishment and of a populist character, it has systematically favored the political Right: with few exceptions, this economic uncertainty appears to has been capitalized on by right-wing parties and political leaders. Why might this be?

Two related answers emerge from the literature. The first is that voters do not make make decisions on strictly self-interested economic grounds; they largely base their choices on non-material factors. The second answer is that voters may misattribute the source of economic insecurity, which makes that anxiety open to manipulation by political elites. In both cases, questions of culture appear to play a large role.

The studies we are interested in vary in the role they afford economic vs. non-economic factors. The original work by Autor, Dorn, Hanson and Majlesi (2016) emphasize the economic causes behind rising polarization, to the detriment of cultural explanations. Other studies claim that economic factors in fact play little role, and that the observed political effects are driven strictly by non-material considerations. As Inglehart and Norris (2017) put it, "Support for populist authoritarian parties is motivated by a backlash against cultural changes [...] far more than by economic factors." Similarly, Mutz (2017) claims that "Status threat, not economic hardship, explains the 2016 presidential vote." These culturally-focused explanations point to evidence that individuals' particular economic circumstances have only a weak effect on their political views. This surprising

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² Both the Socialist and the Communist candidate saw a surge of support in comparison with the 1928 election.
fact has actually long been acknowledged: most voters appear to form their beliefs not based on their own economic fortunes (so-called pocketbook, or egotropic voting), but on the fortunes of their region, or of the country as a whole (so-called sociotropic voting).

Yet this seems insufficient to dismiss economic factors as a prime mover: the economic fortunes of the region appear to play a large role on non-material views, in ways that feed into individuals' political calculus. Specifically, the import exposure of a commuting zone, or a geographical labour unit, appears highly correlated with a number of measures of political pushback. What is increasingly acknowledged, however, is that the relevant unit of observation is not the individual, but that individual's group. Economic outcomes matter; but it is culture that determines the relevant shape of group within which individuals assess their fortunes, most often in relation to other groups. As Sides, Tessler and Vavreck (2018) put it in a recent book accounting for electoral shifts in the US, "The important sentiment [...] was not “I might lose my job” but, in essence, “People in my group are losing jobs to that other group.”"

In this way, there has been growing recognition that the backlash against the established order that brought about both the election of Trump and the Brexit vote, as well as electoral upsets in a number of Western democracies, is reducible neither to purely economic nor to cultural factors alone. It is instead some intricate combination of the two. Studies have attempted to tease out the exact interaction between the economic and cultural forces that has brought about similar political effects across a range of developed democracies.

Among these is a 2017 article by one of our project's members, Stephanie Rickard, co-authored with Cameron Ballard-Rosa and Kenneth Scheve. The authors examined individual attitudes in the UK, in the context of Brexit. Their main argument is that individuals' values, which the literature has traditionally treated as fixed, may actually respond to changing economic circumstances. They look specifically at a bundle of attitudes described as "authoritarian values", which are characterized by a preference for conventionalism, submission and aggression, or the belief that the use of force may be a valid means of achieving desirable outcomes. These values have also been linked, in turn, to voting for radical right-wing parties. In the specific case of Brexit, individuals that held the lowest values of authoritarian values were less than 20% likely to vote for Brexit, versus a more than 90% likelihood for those scoring highest on authoritarian values. Yet the question remains, what might have led to the emergence of such values in the first place?

Like the other studies we have described, the authors turned to the same measure of import exposure, looking to imports from China into the UK, and isolating the causal effect of the surge of Chinese exports through an identical approach to that used in Autor, Dorn, and Hanson (2013), and follow-up studies. They found that individuals living in areas more exposed to import competition featured more authoritarian values, especially in terms of their belief in the use of force. Given the known relationship between authoritarianism and support for the Leave option, the role of economic hardship resulting from import exposure appears high enough to have had a substantive effect on the outcome of the Brexit referendum. Interestingly, accounting for immigration does not change the positive association between import exposure and authoritarian values. Similarly, the proportion of immigrants in a given area was not related to individuals' authoritarian values.
This finding relating to immigration is worth pausing to consider. The question of immigration was widely acknowledged to have played an important role in the Leave campaign. What do these recent studies reveal about its true role? Colantone and Stanig (2017b) take a closer look at this question. They find that while the incidence of actual immigration in a given region is only weakly related to votes for Brexit, import exposure, measured in the same way as Ballard-Rosa et al., is in fact associated with more negative attitudes towards immigrants, and a belief that immigration is bad for the economy. The implication is that attitudes towards immigration are one possible channel that political entrepreneurs willing to activate out-group hostility can seize upon. To reiterate, both Ballard-Rosa et al. and Colantone and Stanig find no direct effect for the proportion of immigrants in an area on the Brexit vote, or on authoritarian values that are associated with the Brexit vote. But they do find evidence that economic hardship negatively affects views towards immigrants, even once we account for their actual number in an area.

We can garner further clues for the complex interaction between material considerations and non-material beliefs by turning back to the US case. Another one of our project members, Leonardo Baccini, considers this question from a different angle, in recent co-authored work with Steve Weymouth. Instead of looking at import exposure, they consider a more direct measure of economic hardship: mass layoffs. This allows them to broaden the lens and look beyond trade, to layoffs caused by offshoring and automation. It is estimated that upwards of five million US manufacturing jobs have disappeared since 2000 as a result of a combination of these factors—automation is actually thought to account for the biggest share of these layoffs. It is also worth noting that despite these costly redundancies, the overall manufacturing productivity and total manufacturing output of the US has increased over the same period. This is in keeping with the recurrent pattern in developed democracies. The size of the pie as a whole has increased. More gets produced by fewer hands; but this means that some must find new jobs, and this transition is painful.
As found in the studies above, these layoffs tend to be geographically clustered, and the effects of one plant closure often reverberate in neighbouring and often complementary industries. Anecdotal examples of the dramatic effect of de-industrialization on living conditions abound. Consider Janesville, Wisconsin: once a vibrant blue-collar town hosting a large General Motors (GM) plant, Janesville has gone through plummeting unemployment, falling salaries, and a striking deterioration of socio-economic conditions since the GM plant closure in 2008. Affected workers are not confined to GM employees, but the whole commercial infrastructure that emerges to support a large manufacturing plant. Home prices have fallen, in a way that affects all homeowners in the area.

Baccini and Weymouth (2018) zero in on the electoral effects of these mass layoffs. Consistent with the political bias of economic pain, they find that manufacturing layoffs result in a net reduction of the Democratic party’s vote share. More interestingly, however, not all voters respond to mass layoffs in the same way. In particular, the effect of plant closures on voting behavior is more pronounced for white blue-collar workers than non-white blue-collar workers, a result that resonates with Donald Trump’s victory in 2016. Finally, when looking at attitudes rather than behaviour, white respondents in counties experiencing white worker layoffs are more likely to believe that they lost their jobs to minority groups, and that the US economy is losing out to China. Much as in Colantone and Stanig, economic hardship appears to increase out-group hostility.

A consistent narrative begins to emerge. Exogenous economic changes appear to have systematic political consequences. The effect is not a direct one, whereby individuals who have lost their jobs channel their grievances through elections. Rather, economic anxiety appears to activate latent attitudes, like authoritarian values and out-group hostility, which in turn provides opportunities for those political entrepreneurs willing to capitalize on these cleavages. Right-wing parties are more likely to do so, on average. The result is the consistent relationship between economic hardship and political gains by right-wing parties. The findings from these studies are sobering. But can governments prevent this slide towards isolationism, nationalism, and out-group hostility? This is the question we consider next.

**What Can Trade Compensation Tell Us?**

If we believe, as the aforementioned studies suggest, that the recent political shifts in Western developed democracies are caused by economic hardship, then might policy measures that aim at alleviating such hardship also address their socio-cultural manifestations, and the political opportunities they provide?

Governments have a menu of options to address labour dislocation and economic insecurity. Can these measures affect the causal path identified above? Which of these policy tools does the UK rely on most, and how does this compare to the case of Canada?

One of our project members, Krzysztof Pelc, examines this very set of issues in the American context, in joint work with Eun Sung Kim. The US serves as an ideal testing ground for questions surrounding trade compensation, since it features the world's biggest and longest-running trade
adjustment program, called Trade Adjustment Assistance (TAA). TAA was created in 1962, and it is specifically targeted at workers who have lost their jobs to trade competition or offshoring. It is a billion-dollar program, which provides recipients with up to $20,000 in income support, extended health coverage over two years, and the possibility of relocation assistance, as they retrain to re-enter the labour force.

What Kim and Pelc (2017) begin by showing turns out to be equally true in the European context: the provision of trade compensation is highly geographically uneven. Regions facing the same amount of import exposure often see completely different levels of trade adjustment support. The reason for this is that targeted programs like TAA, and its equivalent schemes in the EU, rely on petitions, and these in turn rely on mobilization. Combined with poor information about the existence of these programs, this results in a highly politicized process. In the case of the US, TAA is driven by petitions from groups of workers, firms, or trade unions. This is different from the equivalent European Globalization Adjustment Fund, which we look at in greater detail below, where governments have to apply on behalf of workers, and where a minimum threshold of 500 redundancies must be reached for each application. The likely result is even greater politicization of trade compensation, since central governments act as de facto gatekeepers to the program.

In the US, TAA has always been a compromise solution: Republicans denounce it as an inefficient scheme that should be done away with entirely, while Democrats call for its expansion beyond the confines of trade, to deal with problems like redundancies arising from technological change. Labour unions, which might be thought to support any program that helps workers, actually have ambiguous views on these programs, which tend to shift the workforce from unionized to non-unionized industries. Tellingly, TAA is often referred to by American unions as "burial insurance," hinting at the limitations of compensation in fully addressing economic anxiety.

The result is that workers are presented with conflicting messages about trade compensation. Many potential beneficiaries ignore the program's very existence. Kim and Pelc (2017) find that elite views of this politically fraught program are partly self-fulfilling: the best predictor of whether workers in a given area apply for TAA benefits are the beliefs about TAA of the legislators in the area, as revealed by speeches and roll-call votes. In places where legislators express positive beliefs about TAA, displaced workers appear significantly more likely to know about, apply for, and receive, trade compensation. In those areas where trade compensation falls short, moreover, workers appear more likely to turn to alternative sources of government support, like disability insurance. Given that a majority of individuals who go on disability never re-enter the workforce, the choice between TAA and its alternatives proves consequential.
Kim and Pelc (2017) also show how the shortfall of trade compensation in the US has steadily risen over the course of the last two decades: looking at the magnitude of the trade shock, the amount of trade compensation offered to workers has been decreasing markedly. The middle of the country has been particularly hollowed out in this respect. Figure 2 shows the responsiveness of TAA to trade shocks, from the 1990s (top map) to the 2000s (bottom map). The darker the area, the higher trade compensation is for a given unit of trade exposure. In keeping with findings above, those places where this shortfall was highest were also more likely to switch from voting for Obama in 2012 to voting for Trump in 2016. A shortfall in compensation thus has similar political effects to the economic pain that it is designed to attenuate.

Figure 2. US Responsiveness of TAA to Trade Exposure, 1990s (top) and 2000s (bottom)
Trade Compensation in the UK

The UK’s response to trade-related job losses has both a European and a national component. The European Union (EU) has several programs to assist disadvantaged regions and workers. As a member of the EU, the UK could draw on these European resources. However, when the UK eventually leaves the European Union, it will have to rely entirely on its national programs. Below, we examine the European Globalization Fund, and in the Appendix, we include an equivalent overview of the national component of trade compensation in the UK.

European Globalization Adjustment Fund (EGF)

Contrary to the European Social Fund, which are both instruments of cohesion policy, the EGF was created as an instrument of competitiveness policy in order to "support workers made redundant as a result of major structural changes in world trade patterns caused by globalisation" (Kennedy, 2018: 4).³ It is far more targeted than the ESF, addressing specific events like mass layoffs resulting from economic integration by providing temporary support to affected workers.

The European Globalization Adjustment Fund (EGF) became operational in 2007 and only covers active labour market policies, as passive labour market policies fall under the competence of the Member states (Falkner, 2016: 275; Puccio, 2017: 9). Initially, the EGF’s budget was capped at €500m per year for the period 2007-2013. However, a significantly lower amount of funds was actually distributed each year (Falkner, 2016: 276).⁴

The original EGF eligibility criteria set a threshold for EGF application of 1,000 redundant workers, a maximum funding period of 12 months and a co-financing rate of 50%. These criteria changed with the 2009 amendment (Regulation EC No 546/2009), in response to the financial crisis. The EGF eligibility criteria were broadened to also include redundancies resulting from the crisis. Co-financing was increased to 65% for a period of two years (until 31 December of 2011). Moreover, the application threshold was permanently lowered to 500 redundant workers and the maximum funding length was also permanently extended to two years.

In 2013, in planning for the 2014-2020 financial framework, the nature of the fund was further altered (Regulation EU No 1309/2013) to accommodate the continuing consequences of the financial crisis and to optimize the previous rules. The EU co-funding rate was increased from 50% to 60%, but the budget was reduced to €150m per year. In addition, starting in 2014, the EGF funds could also be used to assist young people out of work or in training.

The current rules are vague in regard to reaching the redundancy threshold (EC No 1309/2013: Article 4) stating that the worker threshold does not necessarily need to be met in exceptional circumstances or small labour markets. The EGF does not co-finance social protection measures such as pensions or unemployment benefits, focuses instead on:

a) tailor-made training and retraining, including information and communication technology skills and certification of acquired experience, job-search assistance, occupational guidance, advisory services, mentoring, outplacement assistance, entrepreneurship promotion, aid for self-employment, business start-ups and employee take-overs, and co-operation activities

b) special time-limited measures, such as job-search allowances, employers' recruitment incentives, mobility allowances, subsistence or training allowances:

c) measures to encourage disadvantaged, older, and young unemployed persons to remain in or return to the labour market.

According to the EU’s online instructions⁵ the application process goes through five stages:

1. a Member State is made aware of large-scale redundancies caused by globalization or a crisis, and after the employer and the worker representatives have agreed on their social plan
2. a plan to help the workers affected is designed under the auspices of the EGF Contact Persons of that Member State.
3. The plan may be submitted as an application to the European Union for part-funding through the EGF.
4. The European Commission assesses it and proposes it to the EU's Budgetary Authority (the Council and the European Parliament) for approval.
5. If approved, the Member State may receive up to 60% of the cost of its action plan.

Most importantly, the decision to apply for EGF funding is taken by the government and not the employer facing the redundancies or the workers themselves (European Committee B, 2012).⁶

The EGF has been underused, and what usage it has seen has been highly uneven, with some countries turning to it far more than others. The fund has failed to fully spend its allocated budget. Countries appear reluctant to apply. The European Commission has been open about the fund's shortcomings that have led to such underuse by national governments. Chief among these is the recognition, much as in the case of the American TAA program, that potential beneficiaries may simply be unaware of the fund's existence.⁷ As a result, workers would be unlikely to pressure their political representative for compensation, and these representatives have less reason to act. The information problem is likely to be even more salient in the case of the EU than in the US, given the high threshold for the number of redundancies required (500 workers). The larger the number, the greater the collective action problem in mobilizing to petition the government for support.

In a survey that asked national authorities what main factors stood in the way of applying for more funding, respondents cited the length of the procedures; the inability to meet the program's criteria; and the co-funding requirement as the main reasons. Accordingly, in attempting to estimate what factors explain which countries apply for EGF funding, Ciobanu and Bridgman (2018) find government capacity to be a dominant explanation: countries than rank higher on government

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⁶ [https://publications.parliament.uk/pa/cm201213/cmgeneral/euro/121203/121203s01.htm](https://publications.parliament.uk/pa/cm201213/cmgeneral/euro/121203/121203s01.htm)


effectiveness are also more likely to go through the process of obtaining EFG funding. Those are the same governments who avail themselves of funds through the European Social Fund—the relationship between the two appears complementary, even once economic need is taken into account by proxying for mass redundancies.

The UK has never applied for EGF funding. The only other member states that did not apply for EGF funding so far are Croatia (which only joined the EU in 2013), Cyprus, Hungary and Latvia (DG Employment, Social Affairs and Inclusion).8

Between 2007 and 2017, 156 out of 157 applications were approved (a single application from Bulgaria was denied). However, 18 applications were withdrawn, and the EP voting data contains at least one case in which several amendments to an application are turned down before the application passed.9 This could be an indication that there might be some internalizing of the odds of success. Yet, even if the 18 applications withdrawn are coding as being unsuccessful, the approval rate remains high, at 89%. When looking at the roll call data from UK MEPs in the current EP (2014-2020), Labour MEPs consistently voted in favour of EGF mobilizations, whereas a majority of Conservative MEPs voted against the use of the EGF (VoteWatchEU).10

The current EU plans for the next EGF envision a further extension of the fund’s scope: the fund would cover redundancies resulting from automation and digitalisation. The minimum number of redundancies would be lowered from 500 to 250. The budget would be increased to €225 million per year, from its current level of about €170 million per year. And the fund's co-financing rate which currently stands at 60%, would be increased. It would be equal to the highest ESF co-financing rates for a given Member State (EU Memo 18/3922).12

The UK’s stance on the European Globalization Adjustment Fund

The UK has been opposed to the EGF since its creation (ESC, 2014. 2015 & 2016). From the UK's standpoint, the ESF is redundant, since national assistance programs which fulfill the same purpose as the EGF. In 2012 Mark Hoban, the then Minister of State of the Department for Work and Pensions (DWP) stated that:

“[... [the EGF] is an inefficient way to help those at risk of unemployment or those made unemployed as a result of large redundancies. Only one in 10 cases of redundancy are caused by globalisation; the rest are caused by corporate and commercial decisions, and there are adverse consequences to using EU funds to compensate for restructuring more broadly. [...] other

8 DG Employment, Social Affairs and Inclusion (http://ec.europa.eu/social/BlobServlet?docId=4558&langId=en)
9 European Parliament Session 01.03.2018 on Case ID EGF/2017/006 ES/Galicia apparel, accessed via https://www.votewatch.eu
10 https://www.votewatch.eu
In fact, the minister continued to highlight the UK’s national redundancy program Rapid Response Service (RRS) as a more adequate way to respond to redundancies of any kind, beyond those arising from trade liberalization. Thus, the UK government has never applied for EGF funding, as it regards the existing national program as more adequate and sees no need for a fund to help those specifically affected by trade liberalization. The UK’s hard stance on the EGF does not exclude the use of the ESF, however. The UK government sees ESF funds as flexible enough to support national redundancy programs, as in the case e.g. Wales (ReACT Scheme).

In a European Committee B session in 2012, one committee member asked the minister whether the UK would not have benefitted from additional EGF money in previous large-scale redundancy cases. One particular case cited was the Ford Southampton and Debenham factory closures, which resulted in 1400 redundancies (BBC, 2012; Telegraph 2012). The government’s stance remained that the current national welfare program (RRS), combined with ESF programs, was sufficient to deal with the redundancies (European Committee B, 2012).

In subsequent European Scrutiny Committee (ESC) meetings and other occasions different ministers of the DWP repeated the same statements regarding questions concerning the EGF in a similar manner: “[...] the Government assessment to date has been that the EGF represents neither good value for money, nor a genuine case for investment at an EU rather than at national level” (HM Treasury 2018). Further, the UK Government “[...] had succeeded in pushing down the co-financing rate to a single rate of 60% (the European Parliament had wanted three rates of 60, 70 and 80% as opposed to the Council's 55%), it opposed this agreement on the grounds of its extended scope” (ESC, 2014).

While the UK has thus been opposed to the EGF from the start, it sees the European Social Fund programs as fundamental and necessary. Looking ahead to a post-Brexit Britain, the European Committee of the UK Parliament has advised the government to establish a body which will take on the same functions as the ESF, and adjust it to the UK's particular needs (Work and Pensions Committee, 2018: 9-11). If these suggestions are followed, this new body would include assistance for workers made unemployed on short notice as well as strategic long-term programs. The

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13 https://publications.parliament.uk/pa/cm201213/cmgeneral/euro/121203/121203s01.htm
17 https://publications.parliament.uk/pa/cm201314/cmselect/cmeuleg/83-xxvi/8319.htm
possibility of short notice assistance is notable, though it is unclear if this would include trade adjustment redundancies.

The Political Effects of Trade Compensation

The UK appears to have a notable preference for passive labour market programs that target a broader range of redundancies, in contrast to more active labour programs that specifically target trade-related redundancies. This preference has put it at odds with much of the remainder of the EU membership, the majority of which have turned to EGF funds to some extent. The question this raises is, does the manner in which benefits to trade-impacted workers are offered matter for political outcomes? How might passive vs. active labour market policies differ in this respect, and how might they compare with the most currently salient means of providing relief to workers: protectionism? Most broadly, if trade exposure increases support for right-wing parties, does trade compensation mediate that effect?

A follow-up study by Kim and Pelc shines some light on this question. Looking once again at the US context, they ask whether variation in TAA benefits across US commuting zones has an effect on electoral outcomes. The answer appears to be yes. In a manner consistent with findings that show a unidirectional partisan effect for economic pain (Colantone and Stanig, Baccini and Weymouth), trade compensation appears to have a positive effect on the Democratic party vote share, regardless of who the incumbent is. That is, areas that obtain more trade compensation become more likely to vote for Democratic candidates, all else equal. Strikingly, the provision of higher TAA also seems to hurt Republican politicians, albeit to a smaller degree. The implication is that insofar as right-wing candidates can capitalize on the economic anxiety generated by import exposure, trade compensation counters this effect.

How does this effect of targeted trade compensation compare to policy alternatives like passive labour market programs that are aimed at all redundancies, no matter their cause? The question is relevant, since we know that the UK has a marked preference for the latter. Preliminary findings in Kim and Pelc (2018) hint at a possible answer. One of the mechanisms through which TAA appears to exert political effects is by attributing a cause to economic pain. This is because the petition process itself, much as in the case of the EGF, requires applicants to explicitly state trade competition of one form or another as the cause of redundancies. This differs from passive labour market programs, which offer benefits in a more automatic fashion to workers made redundant for a range of causes. This distinction matters, insofar as we believe, following the literature set out above, that the political effects of economic anxiety are driven by political entrepreneurs activating out-group hostility. In other words, when voters lack a sense of what the possible drivers of economic anxiety, they are more prone to believe claims that e.g. immigrants, or ethnic and religious minorities, are taking jobs away from their in-group. The implication is that the choice of trade compensation program may have effects on how prone to manipulation economic anxiety is, and how easily political parties can capitalize on such anxiety.
This leaves one important policy alternative: protectionism. Returning to the classic case of the 1932 American election, one often forgets about Roosevelt's opponent, Herbert Hoover. Hoover had campaigned on a platform of protectionism, after overseeing the most notorious tariff increase in US history, the Smoot Hawley tariff. American voters in 1932 were given a choice between redistribution and protectionism. The two are natural substitutes.

The results in Kim and Pelc (2017) suggest that while this may be so, the two mechanisms have drastically different political effects. While TAA provision appears to help the Democratic vote share, the opposite seems true for the provision of antidumping. That is, those areas where production plants benefit from antidumping duties becomes more likely to vote for Republican candidates, and this is not limited to the Trump vote: it appears to be a systematic effect for the prior five presidential elections. This may seem surprising, since the political Left is traditionally more suspicious of trade liberalization in the first place, and thought to be more keen to extend import relief to beleaguered industries. Yet in the case of antidumping, the most widespread source of temporary trade protection, right-wing parties appear better able to politically capitalize on its use.

Why might this be? The reasoning linking economic anxiety to support for right-wing parties can be applied once more. The particularity of trade protection, and antidumping duties in particular, is that they lay the blame with an "other": antidumping duties, the most prevalent of trade remedies, explicitly call out a specific foreign country for "dumping." It is habitual for political leaders to portray dumping as a trade violation, and to speak of antidumping as “enforcement,” despite the fact that under global trade rules, antidumping in no way constitutes a violation. In fact, the very popularity of antidumping—compared to another trade remedy like safeguards, which is taken in reaction not to foreign actions but to domestic injury or risk thereof—is commonly attributed to the way in which antidumping allows politicians to point fingers at their trade partners, rather than acknowledging a loss of competitiveness (Pelc 2016). Antidumping is politically useful in a way that safeguards are not. A similar difference appears between antidumping and trade adjustment. Trade adjustment is taken in reaction to a domestic loss of competitiveness; it does not purport to take action against "unfair trade practices". Trade remedies like antidumping may thus be of particular use to political parties seeking to blame an out-group, such as foreign exporters, for economic hardship experienced domestically.

In sum, countries can effectively mitigate the economic anxiety that appears linked with rising support for populist, nationalist parties. Yet the ways they choose to do so have distinct effects. The chief difference is in the information that these mechanisms provide recipients about the cause of economic anxiety. Targeted programs like the US’ TAA explicitly make the link to a loss of trade competitiveness. The provision of such targeted trade compensation appears to help the political Left, judging by the US case. More passive labour market policies, such as those championed in the UK, provide no information about the causes of economic shock to recipients. As a result, they leave such economic anxiety prone to manipulation by political elites wiling to lay the blame on some out-group. In the same way, trade protection through antidumping duties, in particular, lays the blame squarely on another country—in recent years, this country has most often been China. Accordingly, it appears that greater provision of import relief through antidumping is associated with growing support for right-wing candidates in the US. This difference between the various means of providing
income support to beleaguered workers will matter all the more as automation becomes the leading cause of redundancies across developed democracies. Unless affected workers have a sense that the economic anxiety they observe around them is due to technological innovation rather than, e.g., immigrants, they may be prone to manipulation by political entrepreneurs seeking to capitalize on latent out-group hostility. The main benefit of targeted, active labour market programs may thus be the way in which they make explicit to recipients the cause economic hardship.

The Case of Canada

The studies we have outlined above cover a total of 16 developed democracies, the UK and the US chief among them. Yet the same approach of measuring the regional variation in import exposure has never been applied to the case of Canada. Here, we take the first step in doing so. Given the political effects of trade competition in this range of other settings, what might a similar exercise tell us in the case of Canada?

Indeed, the premise of this Knowledge Synthesis exercise is that no developed democracy open to the international economy is immune to the backlash against global governance that gave rise to Brexit in the UK, and appears to have contributed to electoral upsets in a number of other developed democracies. Given the recent flurry of ambitious agreements signed by Canada, and the possibility of a bilateral agreement with China on the horizon, our suspicion is that any economic downturn could turn popular opinion against openness to goods, services, and people from abroad. Canada is exposed to similar levels of trade competition as the UK overall, and it has work to do in helping alleviate the resulting labor dislocation.

Figure 3: Canadian Province-level Trade Exposure, using Chinese Imports
In a preliminary attempt to map import exposure across Canada, we collected data at the firm level for the country as a whole. This gave us a sense of the regional variation in the number of workers by industry. Using imports by industry, we then obtained a measure of import exposure for every Forward Sortation Area (FSW), our geographic unit of interest, to Chinese imports. Like in the studies we describe above, which all follow from Autor et al. (2013), we rely on the same Bartik adjustment to zero in on the exogenous component of regional trade exposure. Figure 3 shows the variation in the degree of import exposure, aggregated at the province level.

Though it is too early to reach definite conclusions, especially at a finer grain, we can more confidently make two claims: (i) Ontario and Québec face the highest average level of import competition, and (ii) this import competition is highly uneven in both provinces. The data for now are still too incomplete to allow us to make definite claims.

Figure 4: Ontario’s Trade Exposure in 2017

For each of our Forward Sortation Areas areas, we also collect the value of the housing stock for every year of interest. Figures 5 and 6 show the two variables side-by-side for two urban areas, Montreal (QC) and Calgary (AB). In both cases, there is a suggestive negative relationship between import exposure and housing values. Yet here too, the sparse data prevent us from reaching firm conclusions. It is nonetheless worth making our expectations explicit: based on the relationship between import exposure and wages, it follows that all else equal, areas exposed to the highest levels
of trade competition should see housing values negatively affected in comparison to other areas. If this turns out to be the case, it would be cause for concern, since price divergences between areas of different import exposure make it harder for homeowners to move in search of work elsewhere, thus slowing down trade adjustment. Our next step, using finer grain and more complete Canadian census data, is to link this variation in trade exposure to welfare program spending, on the one hand, and electoral results, on the other. We expect to have these results ready by April 2019.

Figure 5. Import Penetration and Housing Stock Value in Montreal, QC (2017)
Figure 6. Import Penetration and Housing Stock Value in Calgary, AB (2017)
Conclusion

This Knowledge Synthesis exercise has sought to bring together a series of recent scholarly findings that portray the Brexit vote as belonging to a larger class of events, one that has taken place across Western democracies in the last five years. Though these events differ in their particulars, they share a number of characteristics: in nearly a dozen countries, voters have thrown their support behind political parties campaigning on platforms of isolationism, nationalism, and a retreat from binding international commitments. The result has thrown into question some of the achievements of post-WWII global governance, from the European Union to the World Trade Organization and the international climate regime.

We focus on a series of empirical studies that employ a set of novel methodological tools to probe at the possible explanation for these political upsets. These studies all zero in on the distributional consequences of trade liberalization: we have long known that countries stand to gain from international economic integration on average, but that these aggregate gains may conceal considerable unevenness. What we have now learned is that these gains and losses tend to be geographically clustered, and that this regional concentration slows down adjustment to integration, making it more difficult for those “left behind” to catch up.

The result is a rise in economic anxiety in areas featuring industries that are exposed to import competition, that is, those industries that experience the downside of integration. These areas not only see a decrease in wages, but also a rise in authoritarian values and out-group hostility among individuals. These cultural shifts, in turn, provide political opportunities for parties willing to capitalize on such cleavages. The result is a consistent relationship between regional economic hardship in Western democracies over the past twenty years and political gains by right-wing and radical parties, which have proven more willing to campaign on isolationist and nationalist platforms. Economic and cultural factors thus both play a role: import competition generates concentrated economic insecurity, but cultural identities determine the contours of the groups relevant to individuals’ calculations. In assessing their economic well-being, individuals appear not to think of their own fortunes, but of that of their relevant cultural group, and they compare it against the fortunes of other groups.

Governments can preempt this chain of events. They can act to cushion the adjustment costs of integration. There are various policy measures to do so; our claim is that these mechanisms differ in their political effects. We first distinguish between passive labour market measures, which target broad swaths of workers with automatic benefits, and more active labour market policies, which target trade-impacted workers specifically. Examples of such active labour market policies are the US’ Trade Adjustment Assistance program and the EU’s European Globalization Fund. Both face similar issues: workers often ignore their existence, and obtaining benefits under these programs requires a degree of mobilization, which makes the process prone to politicization. The result is that the provision of these programs has been geographically uneven, and has increasingly fallen short over the last two decades. This shortfall has proven consequential: those areas with the greatest trade compensation shortfall have also become most vulnerable to electoral pushback.
A key feature of targeted programs such as the TAA and the EGF is that they explicitly attribute harm to an economic phenomenon. Passive labour market policies, by contrast, do not. Recipients are then free to attribute blame to other causes, including out-groups such as women, immigrants, or ethnic and religious minorities. Systems that, like the UK, rely disproportionately on passive labour measures thus potentially leave economic anxiety more prone to manipulation by political entrepreneurs willing to capitalize on out-group hostility.

This reasoning accounts for a consistent empirical relationship in the US context: the provision of trade adjustment support through TAA is associated with increased support for Democratic party candidates, while trade protectionism, especially when provided through antidumping duties, is associated with increased support for Republican candidates. The design of trade compensation thus has unexpected political consequences.

We end by applying these methods to the case of Canada. Our premise is that no developed democracy is immune to the type of political pushback witnessed in the UK Brexit vote and the 2016 US election. We use firm-level data to allocate industries across Canadian regions, and then calculate each area’s import exposure. Our preliminary findings suggest great geographical heterogeneity across Canadian provinces in the level of import competition they face. Ontario and Québec stand out as being exposed to the highest levels of trade competition in the country. We then focus on urban areas in these provinces, and show a suggestive negative relationship between changes in land values and import exposure, though it is too early to affirm this with any confidence. We intend to further test this relationship using census data with better coverage.

The popular account of the political upsets of recent years has conventionally turned to either economic or cultural explanations, implying that these are mutually exclusive. In this report, we demonstrate how recent findings allow us to trace the particular interaction between cultural and economic factors. It will be up to future work to test the resulting expectations in the Canadian context.
References


Kondo, Illenin. 2013. “Trade reforms, foreign competition, and labor market adjustments in the US.”


Appendix.

UK: The National Dimension of Trade Adjustment

The United Kingdom has been a leading country in the OECD in implementing welfare policies focused on incentivizing individuals to return to work (Andre et al., 2013: 22)\(^\text{19}\). The welfare system is designed as a safety net, in contrast to systems offering more universal benefits in continental Europe. Overall, the UK is following a supply side strategy by hoping that raising skill levels will increase competitiveness and productivity (OECD 2017:40)\(^\text{20}\).

**Jobcentre Plus (JCP - UK public employment service)**

Since 2011, JCP started skills trainings under the Job Allowance Seeker Skills Conditionality program to improve skills and employability. These trainings can be mandatory if recipient has been assessed as lacking skills are a barrier to entry into the job market. Around 56% of job seekers who are referred to a training actually show up (there are sanctions for those still receiving benefits; others might have found a job or stopped claiming benefits). Trainings tend to be of short duration and target basic skills, basic occupational skills and English for non-native speakers. Basic occupational skills are 51% of training cases (e.g. certificates in areas like retail or IT…). The impact on employment outcome could not be established yet.

JCP introduced Universal Job Match in 2012. This online tool aims to facilitate job/skill matching. Since 2013 job search assistance claimants can be required to register and for employers Job match is the only way to advertise jobs with JCP ([info in this paragraph] OECD, 2017:55-57)\(^\text{21}\).

**Universal Credit (UC)**

UC should not be considered as an additional welfare measure but instead as a re-grouping of existing benefits. The main novelty is the introduction of a consistent benefit withdrawal rate. Such a rate is supposed to ensure that an individual is always better off in work. UC does not have an impact on the eligibility criteria. The rollout is expected to be completed by the end of 2018 (Kennedy and Keen, 2018: 3)\(^\text{22}\). A key feature of UC is that the benefit amount reduces only gradually as recipients earn more from paid work (i.e. low paid workers) - this is supposed to keep incentives to work high. Under UC, job seekers are assigned to work coaches who are providing personal support to move into work or to find a better job that makes better use of the recipient’s skills (OECD, 2017: 45-46)\(^\text{23}\).


The Rapid Response Service (RRS) and general Redundancy information

“In the late 1990s the Government introduced the Rapid Response Fund and Rapid Response Teams operating at a regional level, in an attempt to ‘fast-track’ its services in response to significant impending job losses, and to prevent long-term damage by offering flexible help reflecting the needs of individuals, employers and the local economy. This experience led to the establishment of a more flexible Job Transition Service that was piloted in 2001 and became the Rapid Response Service (RRS) in April 2002.” (ÖSB/IES, 2003:1)

Workers under notice of redundancy and the unemployed have mostly access to career guidance (OECD 2017:45). The RRS is provided by JCP, and available to support individuals affected by redundancy, in the first instance through support provided at workplaces where redundancies are threatened. The government requires employers to submit the HR1 Form, a form for employers to notify the government of potential redundancies. With the details of redundancies provided Job Centre Plus may contact the employer and support them with the RRS.

If an employer is making 20 or more employees redundant at the same time, the consultation should take place between the employer and a representative (e.g. trade union rep, elected employee rep. (section 188(1A) of the Trade Union and Labour Relations Act, 1992)). The basic obligation to consult originated from the EU (see Council directives 75/129/EEC in 1975; followed by Directive 92/56/EEC in 1992 and most recently 98/59/EC in 1998). The UK passed the Employment Rights Act in 1996 which sets out the requirement for the employer to consult with an employee representative. The consultation needs to cover ways to avoid the redundancies, the reasons for them (UK Coal Mining Ltd v National Union of Mineworkers and the British Association of Colliery Management, 2008) and how to keep the number of dismissals and consequences to a minimum (e.g. by offering retraining). Workers who have been employed for at least 2 years for their current employer have the right to statutory redundancy pay.

If the RRS’s offer of assistance is accepted, a JCP team will contact the employer and information is provided to those under threat on other jobs within the local labour market, and workers matched to known vacancies. The support provided consists of help with CVs, job search skills, and information on out of work benefits and how to make a claim. Where the labour market does not offer work of

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31 https://www.legislation.gov.uk/ukpga/1996/18/contents
32 https://www.personneltoday.com/hr/case-of-the-week-consultation-on-collective-redundancies/
33 For calculation and rules regarding redundancy pay see: https://www.gov.uk/redundant-your-rights/redundancy-pay
the type lost, a Skills Transfer Analysis is offered. This compares the skills the person has with those required to find work. Where skill gaps are identified Job Focused Training is provided to fill the skills gaps. However, Job Focused Training is intended to help the person gain the necessary skills to find work quickly, and this training is not expected to lead directly to any qualification (Jefferys and Clark, 2009: 23-24)\textsuperscript{34}.