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Making sense of Brexit

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Reuters

QUICK TAKE: “Even after its exit from the EU, Britain cannot remain as an isolated island. It has to be part of an international trade regime which allows for free trade.” Picture shows a demonstration in central London after Brexit.

It is not a blow against globalisation per se. It is a vote against greater economic integration beyond the free flow of goods, services, and capital

Brexit has evoked a spate of comments. These comments fall into broadly two categories. The first set of comments focusses on the short-term and medium-term impact of Brexit on the U.K., Europe and the rest of the world including India. The second goes into the reasons behind this decision of the British. Is there a clear message or is it a confused signal? It is to this aspect this article is devoted.

Impact of globalisation

Several analysts have described this decision as a blow to globalisation. Is this really so? Or is it a superficial view? Globalisation has been interpreted in many ways. In broad terms, globalisation denotes the free movement of goods, services, capital, funds, ideas, technology and people across countries. Many people think globalisation is a recent phenomenon. This is not true. This has been going on for centuries. What has made it unique in recent times is the speed of the movement. Great Britain and many other countries in Europe have reached the present level of economic development only because of this free movement. In both demographic and geographic terms, Britain is a small country. It



is not the size of the domestic market that determined its growth. London could not have emerged as the financial centre of the world but for the free flow of capital. The gamut of financial services offered by London is geared to meet world demand and not that of Britain alone.

Even after the exit from the EU, Britain cannot remain as an isolated island. It has to be part of an international trade regime which allows for free trade. What then could have motivated a little more than 50 per cent of the population to come out of the EU? It has something to do with the nature of the relationship within the EU.

The EU has evolved over the last seven decades. From a loose arrangement, it has become a tight bureaucratic organisation with its jurisdiction extending to multifarious activities. When the euro was created as a common currency, Britain opted out of it. The European Central Bank sets a common monetary policy stance for all member countries. This itself has been a source of irritation to many member countries. This came out prominently at the time of the Greek crisis. With the loss of one instrument of control — namely, the exchange rate variation — the entire burden of adjustment had to be through employment and output changes. As one commentator put it, the EU has moved up its aspiration from the idea of ‘common’ market to ‘single’ market. It is this transition which half of Britain has resented. The complex set of regulations emanating from Brussels has made at least a section of the British people feel that they have lost ‘independence’. Some of the elite of Britain who voted to ‘leave’ feel this way. They think that control has moved to unelected bureaucrats in Brussels.

Perils of migration

What has induced the 'non-elite' to vote for Brexit was the EU's migration policy. The free movement of people has been the last straw that broke the camel's back. The low-paid jobs in the U.K. have been taken over by migrants predominantly from Eastern Europe. In an economy which has been growing slowly (even though the U.K. is a better performer than other European countries in recent years), this has come as a shock. The spirit of 'nationalism' still runs high. The poor in Britain feel that they have been cheated by the migrants. Absorbing migrants is not new for Britain. The Asian and African migrants constitute a significant proportion of the population. All this happened when the economy was strong and growing. But this is not the situation now, and the resentment is in one sense natural. However, looked at globally, the poor in the countries from which people migrate have benefited. The British have also gained to the extent that the free movement of people has enabled highly skilled professionals to find positions all over Europe.

The 'leave' vote thus was motivated by two considerations: one, the degree of integration that the EU was trying to impose, and two, the migration policy which allowed a free movement of people across countries.

Globalisation is not really the devil. If the EU arrangement had been restricted only to free movement of goods, services, capital and funds, it could not have led to any deep resentment. It is the attempt at greater economic integration that has been interpreted as a loss of sovereignty and resented. However, there is still a message for globalisation. Globalisation, with its emphasis on efficiency (since goods and services will get produced at the least cost centres), can lead to greater inequality theoretically. Within a country also, the more efficient including professionals gain disproportionately. This situation gets worse if economies are growing slowly. The U.S. has always prided itself on saying that the system they have is 'people's capitalism'. Inequalities do not matter much when economies are growing strongly and when new entrants to the labour force find employment easily. Countervailing measures are needed to take care of the adverse impact of globalisation. For this reason, we cannot throw the baby out with the bathwater.

Slow growth and technology

The developed countries face a serious dilemma. They have reached a stage in their development when further growth will be slow. This will have implications for absorbing the labour that gets added to the market. Complicating the situation is technological development which is increasingly labour-saving. New technologies have a twofold impact. First, they reduce the demand for labour in general. Second, in particular they make unskilled and semi-skilled work redundant. They demand new skills for which retraining may be needed. Distribution of income has thus become an issue which needs to be dealt with directly.

Brexit is not a blow against globalisation per se. It is a vote against greater economic integration beyond the free flow of goods, services, and capital. Labour does not stand in the same category as capital, even though both are factors of production. Migration hurts when the economy is at a low ebb. Britain, along with other developed countries, faces a basic problem of coping with a growth potential which is far lower than the growth rate they had seen before 2008. The sociological economic implications of this phenomenon are yet to unravel.

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