

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

## About the project

What lessons does the Brexit referendum hold for developed democracies? This knowledge synthesis report brings together a set of recent scholarly findings on geographic variation in the Brexit vote. Using a new set of methodological tools, these studies portray the leave vote as belonging to a larger class of events taking place across developed democracies in the last five years.

We know that countries stand to gain from international economic integration and the removal of restrictions on trade, on average, but these overall gains may hide considerable unevenness. Gains and losses tend to be geographically clustered. This regional concentration slows down adjustment to the changes of integration, making it more difficult for those 'left behind' to catch up.

The result is a rise in economic anxiety in areas with industries that are exposed to import competition. This anxiety is associated with increased popular support for political parties campaigning on platforms of isolationism and nationalism, and a retreat from binding international commitments. These areas not only see decreased wages, but also a rise in authoritarian values and out-group hostility among individuals. Such cultural shifts provide opportunities for political entrepreneurs willing to capitalize on these cleavages. Economic and cultural factors both play a role. The result is a consistent relationship between regional economic hardship in western democracies and political gains by right-wing and radical parties.

No developed democracy is immune to the type of political pushback witnessed in the United Kingdom's (UK) Brexit vote and the 2016 United States (US) election. We take a first step

in identifying the areas most prone to political pushback resulting from import competition.

We use firm-level data to allocate industries across Canadian regions, and then calculate each area's import exposure. We also review the ways that governments have attempted to address these issues through compensation and their success rate.

## Key findings

- Exposure to import competition shows significant regional variation within Organisation for Economic Co-operation and Development member countries.
- While countries as a whole gain economically from trade liberalization, those areas most exposed to import competition see a rise in authoritarian values, political extremism and out-group hostility.
- Differences in support for the leave campaign in the UK's Brexit vote followed the differences in geographic areas of import exposure.
- Government compensation schemes can go a long way in pre-empting the political effects of labour and economic insecurity.
- Our preliminary findings confirm large differences in import exposure across Canadian provinces. Ontario and Quebec stand out as being especially exposed. When we focus on urban areas in these provinces, we see a suggestive negative relationship between import exposure and changes in land values, a possible early warning sign. ■

## Policy implications

- Governments can pre-empt the chain of events we identify by cushioning the adjustment costs of integration. The provision of such trade adjustment programs in both the US and the

European Union (EU) has been geographically uneven and increasingly falling short over the last two decades. This has observable consequences: those areas with the greatest trade compensation shortfall have also become more vulnerable to electoral pushback.

- Our findings support creating dedicated trade adjustment programs—not only as a means of compensating trade-affected workers, but also as a means of limiting the ability of political entrepreneurs seeking to assign blame to e.g., immigrants, or other out-groups. One of the underappreciated aspects of targeted trade adjustment programs is that they inform workers about the actual cause of economic hardship. This in turn makes individuals less prone to manipulation.
- Our most pressing recommendation is to reverse the overall trend that sees decreasing compensation to trade-affected workers over the past two decades. The ability of developed democracies to continue reaping the fruits of international markets depends on it. ■

## FURTHER INFORMATION

Read the full report

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