

Did austerity cause Brexit?

By Thiemo Fetzer



“The austerity measures implemented by the coalition government from 2010 brought about significant spending cuts and a significant demographic realignment of public spending. Public spending per person fell by about 23% in real terms between 2010 and 2015. But how did these cuts affect UK citizens, and did they change the political preferences of UK voters?”

I gathered data from UK electoral contests since 2000 and assembled a detailed individual-level panel dataset covering almost 40,000 households since 2009. My analysis reveals that cuts to the welfare system from 2010 sparked a protest vote that tipped the balance of the 2016 European Union (EU) Membership Referendum towards leaving the EU.

The effects of austerity

The 2010 austerity programme focussed on cutting public spending rather than increasing taxation. There were three core components to these measures – welfare reforms and welfare cuts; cuts to ministries; and freezes to public sector salaries, freezes to benefits, or caps on uprating to erode the real value of salaries or benefits. These cuts were felt most keenly by working age adults who lived in more deprived areas of the UK.

Figure 1 shows the effect of austerity on Government spending per capita. Between 2010 and 2015, public spending on welfare and protection (e.g. unemployment benefits, housing tax credits and disability benefits) fell by 16%, and education spending fell by 19%. Healthcare spending flatlined, but increasing demand on services owing to an ageing population, and a pay cap on staff salaries, put pressure on the NHS.

Public spending cuts were disproportionately borne by the current working age population (who are most likely to benefit from social security payments) and the future generation (who benefit from publicly funded education). Even in nominal terms, welfare spending per capita dropped sharply, while fiscally expensive spending on pensions steadily rose due to the triple lock, which guaranteed that the basic state pension would rise by a minimum amount each year (Figure 2). ▶



Overall projected financial loss per working adult as a result of welfare reforms

The impact of the welfare reforms was felt the hardest in parts of the UK that were already most deprived prior to 2010. For every pound lost in transfer income, local economies contracted by around 2-2.5 pounds. The overall projected financial loss per working adult as a result of welfare reforms was £914 in Blackpool but £177 in the City of London.

Budget cuts to ministries put strain on local councils. Funding for the Ministry of Housing, Communities and Local Government, which provides local governments with a significant part of their funding, was cut in real terms by 30-40%, putting pressure on local councils to provide services. In 2017-18, English councils' core budgets totalled about 44 billion pounds, 35% of which was absorbed by the rising cost of adult social care. Councils had to cut spending on items deemed non-essential – the parts of spending that most elastically responded were planning and development (a nominal contraction of 43%), housing (nominal contraction of 35%) and culture (nominal contraction of 25%) (Figure 3).

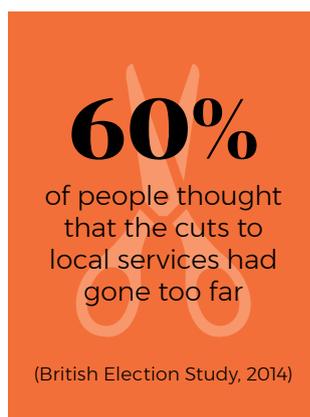
Government measures to save money on policing, the civil service and housing also had a local impact. Police funding from Central Government fell by 19% between 2010/11 and 2018/19 whilst local funding rose. Police staff numbers dropped by 17.4% between 2009 and 2016. The civil service shrank from 519,000 in 2010 to 411,370 in 2016 - a decline of around 20%. These staffing cuts were experienced most deeply by regions outside of London. Cuts to local housing allowance after 2011 are causally associated with an increase in evictions, statutory homelessness and rough sleeping.

In addition to a squeeze on welfare and ministry funding, the government also sought to save money on public sector salaries. Between 2010 and 2013, salaries over £21,000 were frozen and after 2014, salary rises were capped at 1%. The public sector experienced staff retention issues, particularly in the NHS. The wage squeeze, and cuts (for example to maintenance grants that

“In addition to a squeeze on welfare and ministry funding, the government also sought to save money on public sector salaries.”

help cover the cost of training for nurses) made working in healthcare a less attractive prospect.

Wealthier communities and districts, on average, were better able to cope with austerity cuts as they could mobilise other sources of funding. As such, the local impact of budget cuts is likely to have further exacerbated the already vast regional economic inequalities within the UK. Austerity cuts to local services were not widely supported:

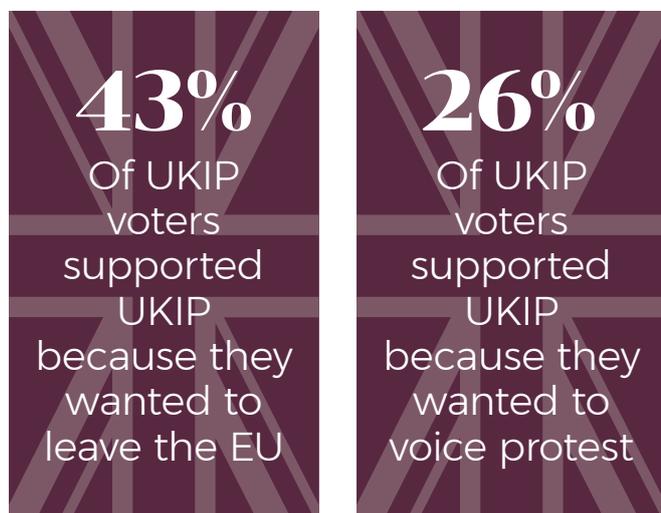


The correlation between austerity measures and the rise in the UKIP vote share

It is evident that austerity exacerbated existing social and economic cleavages across the UK. The cuts were felt most keenly by working age adults reliant on the welfare state and living in deprived areas. As a reaction to austerity, 2010 saw a change in voter preference towards supporting anti-establishment parties that promised a break with the political status quo. The UK Independence Party (UKIP) in particular saw a marked rise in popularity in local, Westminster and European elections (Figure 4).

The rise in the UKIP vote share from 2010 coincides with a notable strengthening of the correlation between support for UKIP and areas where there was a large proportion of individuals with no qualifications, or in routine, retail or manufacturing jobs. Significantly, these areas of the UK were more reliant on the welfare state and tended to be harder hit by austerity measures. The timing and geographical distribution of the sudden increase in support for UKIP suggests that austerity had an important role to play in shaping the political preferences of UK citizens (Figure 5).

Indeed, in the 2014 EU election, the UKIP vote was for many a way to protest and was not only about EU membership grievances:



The UKIP vote share and the Brexit vote

A study of the UKIP vote share is informative for understanding voter motivations to choose 'Leave' in the 2016 EU referendum. UKIP was the only party before the referendum with leaving the EU in its manifesto. During the referendum campaign, the UKIP leader Nigel Farage, was the only party leader to publicly endorse the Leave movement. UKIP policies also spoke to the dissatisfaction of protest voters squeezed by austerity. In 2015 they pledged more money for the NHS, significant cuts to immigration, and tax breaks for lower earners. The Leave campaign in 2016 mirrored many of UKIP's policies. The pledge to reroute £350 million a week supposedly given to the EU directly to the NHS implied that EU membership was expensive, and the money could be put to better use in the UK to improve public services (which were under strain owing to austerity). Posters of Syrian migrants implied that the UK was under undue pressure from migrants using its public services.

Geographically, the support for UKIP in the 2014 European elections largely replicated support for leave in the 2016 EU referendum (Figure 6). The geographical connection between voters for Brexit in 2016 and voters for UKIP in 2014, alongside the data showing a strong correlation between votes for UKIP after 2010 in areas hard hit by austerity, strongly indicates that austerity influenced some UK citizens to vote to leave the EU.

“UKIP was the only party before the referendum with leaving the EU in its manifesto.”

But did austerity cause Brexit? The data shows that individuals in some areas chose to vote for UKIP in protest of the government's austerity measures. But were these gains for UKIP enough to tip the balance of the 2016 referendum in favour of leaving the EU? The data indicates that UKIP vote share increased by between 3.5 to 11.9 percentage points due to austerity. The Leave campaign won the referendum by a margin of 3.8 percentage points. Dissatisfaction over austerity measures was significant enough to give the Leave campaign its majority. If austerity had not happened, or if it had played out differently, the UK might have remained in the EU. ◀

About the author

Thiemo Fetzer is Associate Professor of Economics at the University of Warwick and a CAGE Theme Leader.

Further reading

Fetzer, T. (2019) 'Did Austerity Cause Brexit?', *American Economic Review*, 109 (11): 3849-86

Fetzer, T. (2020), 'Austerity and Brexit', *Intereconomics. Review of European Economic Policy*, 55 (1): 27-33.

“UKIP’s policies in 2015 spoke to the dissatisfaction of protest voters. They pledged more money for the NHS, significant cuts to immigration, and tax breaks for lower earners.”

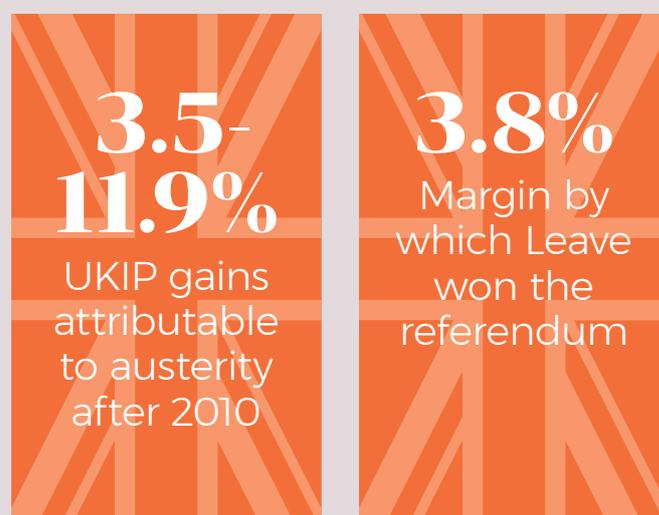


Figure 1: Government spending per capita in £

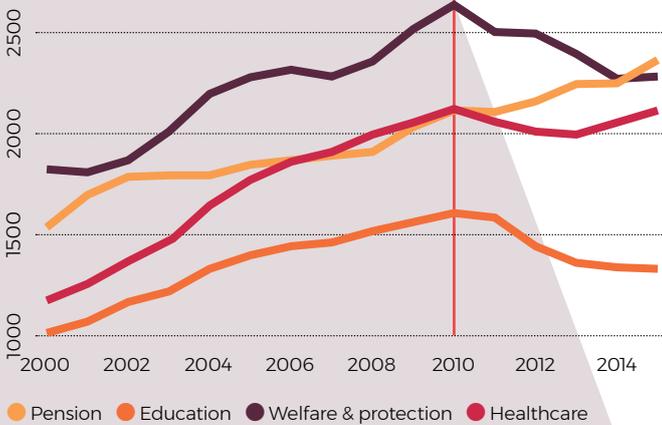
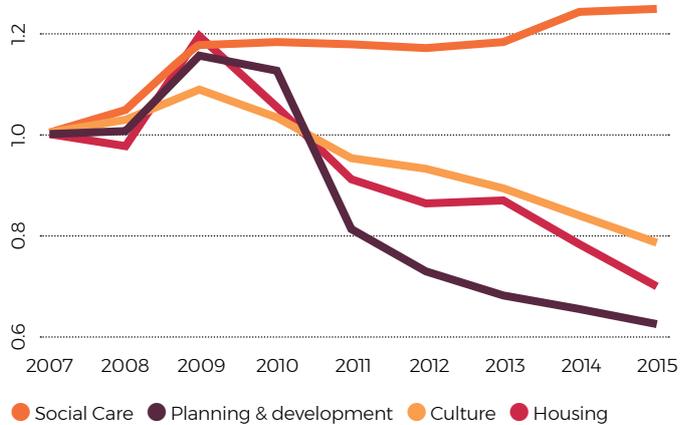


Figure 2: Social protection vs pension spending in real terms per capita



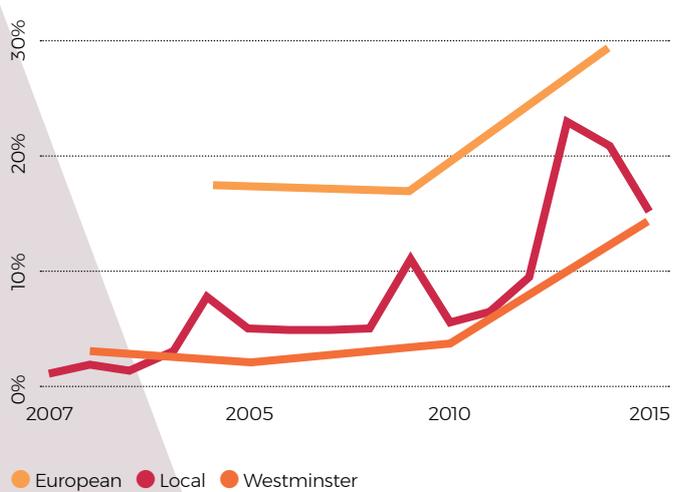
Notes: Figure plots nominal spending across major local council spending priority areas. The figures have been indexed relative to 2007. The underlying data is from the local; government financial statistics for England provided by the MHCLG.

Figure 3: Council spending across major local authority districts in the UK



Notes: Figure plots nominal spending across major local council spending priority areas. The figures have been indexed relative to 2007. The underlying data is from the local; government financial statistics for England provided by the MHCLG.

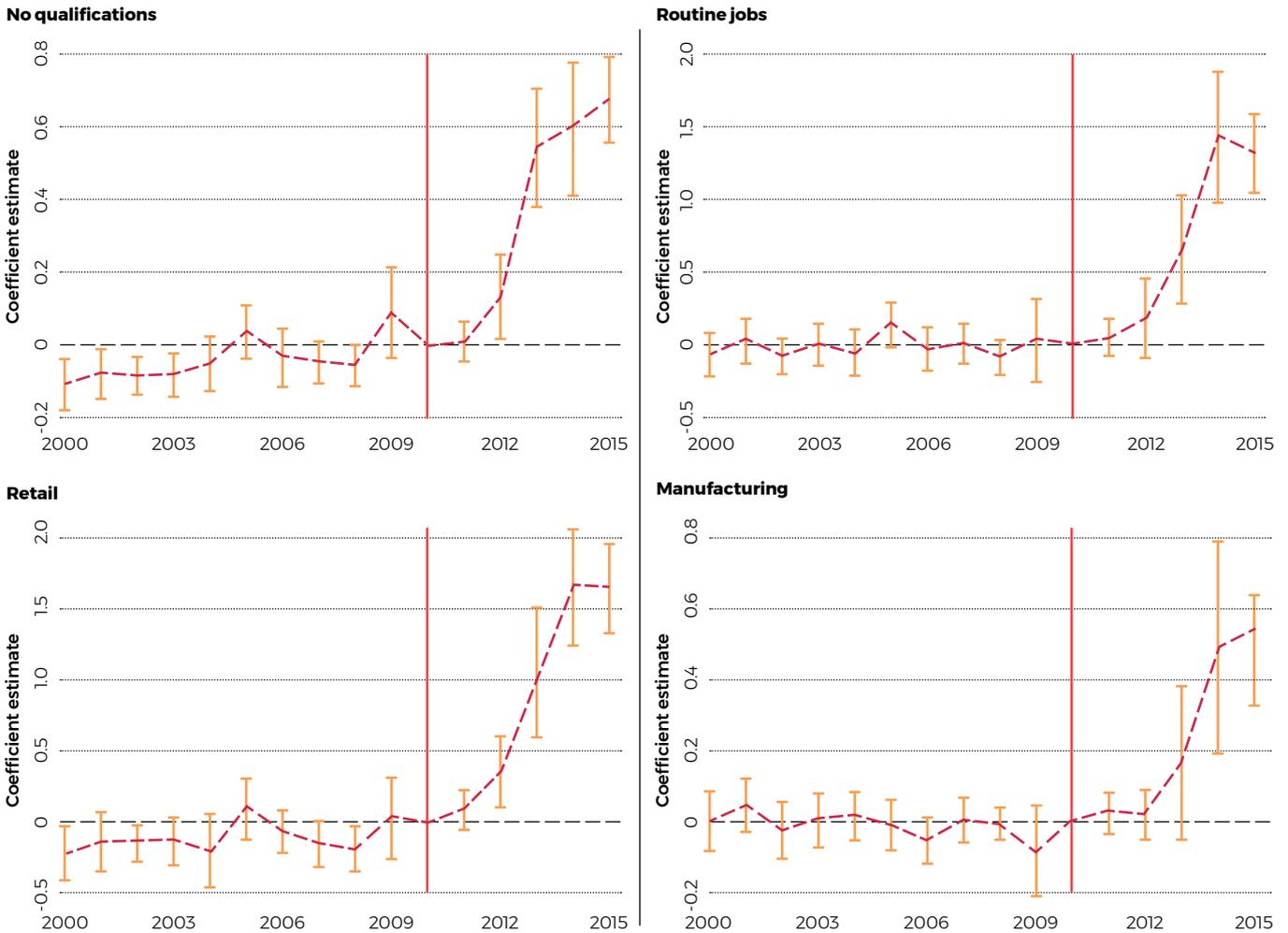
Figure 4: UKIP support across elections over time



Notes: Figure presents the average UKIP vote share across the European, Westminster and local elections since 2000.

“2010 saw a change in voter preference towards supporting anti-establishment parties that promised a break with the political status quo. UKIP, the only political party at that time with leaving the EU explicitly on their agenda, saw a marked rise in popularity in local, Westminster and European elections.”

Figure 5: Effect of education qualification, socioeconomic status and sectoral employment of the resident population as of 2001 on support for UKIP over time



Non parametric effect of educational qualification, socioeconomic status, and sectoral employment of the resident population as of 2001 on support for UKIP over time.

Figure 6: Support for UKIP in the 2014 European election and the Leave share in the 2016 EU referendum

