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No. 239

21 November 2016

BREXIT FROM AN EU PERSPECTIVE

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- Changes in income structure due to globalization have resulted in lower incomes for workers in developed countries and brought about political turmoil in recent years.
- Developed country risk presently stems from the difficulty of simultaneously maintaining democracy, globalization, and national sovereignty.
- Brexit represents backlash from those in and below the shrinking middle class.

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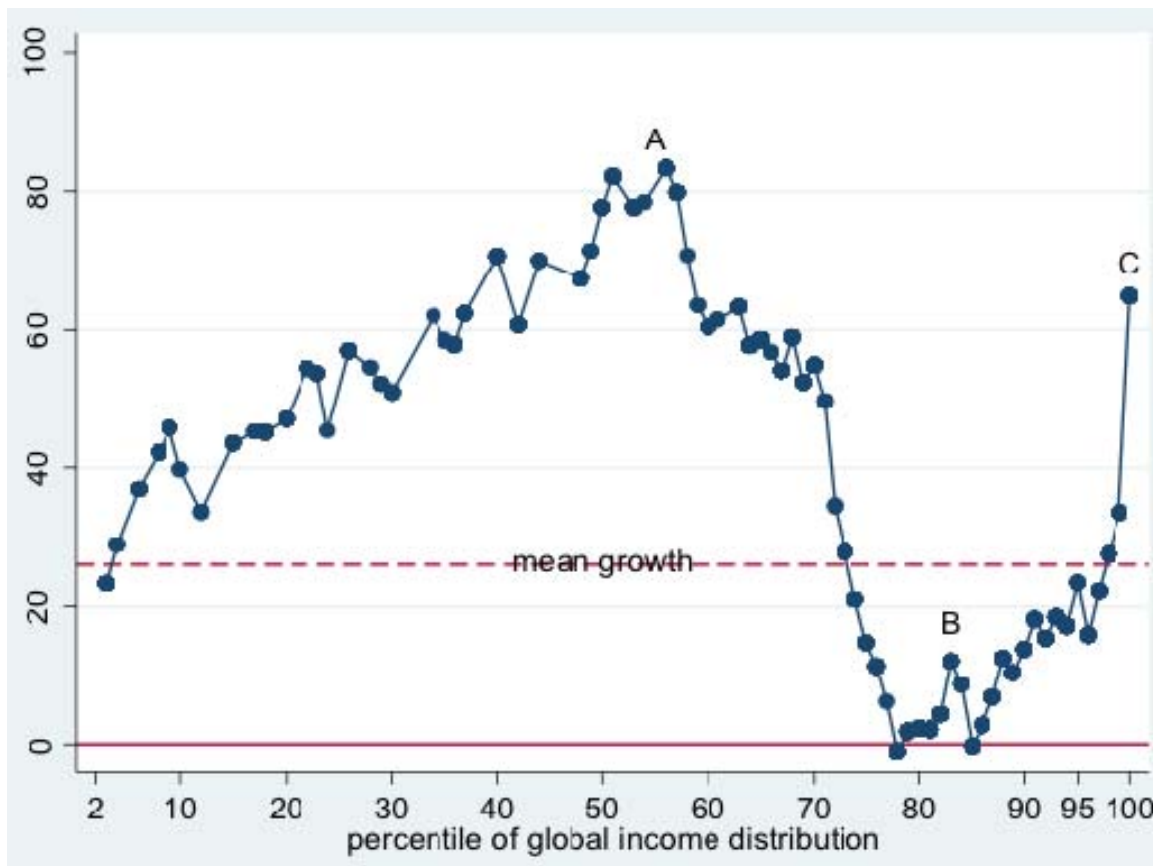
We now live in an age of developed country risk. Brexit (a UK exit from the EU) has raised a wide range of questions, but this thesis is a central one. Here I would like to interpret this thesis from the perspective of the globalization-national sovereignty-democracy trilemma.

Brexit is of world historical significance. The UK and the EU will lose each other, both will see some instability, and the news has already had an impact on share prices and exchange rates around the world, but the connotations go far beyond that.

The victorious supporters of Brexit were an amalgam of three causes. The first of these is sovereign self-determination. The second was opposition to immigrants and to the EU that had allowed them entry. The third and decisive one was the sense among workers that they had been left behind by globalization and European integration, that their real incomes were stagnant, and that their jobs were under threat. At the risk of oversimplifying, these causes appealed primarily to supporters of the Conservative Party, the UK Independence Party, and the Labour Party respectively, who together created a ground swell.

According to Branko Milanovic, author of "Global Inequality: A New Approach for the Age of Globalization," we are now seeing the largest changes in income structure since the Industrial Revolution. While workers in developing and emerging countries (or more accurately, people near the median of the global income distribution) and the top 1% of income earners in developed countries are reaping the benefits of globalization, workers in developed countries (people of below-average incomes in OECD countries) have sunk in comparison (see Figure 1). These workers in developed countries have been the epicenter of political turmoil in recent years. Moderate centrist political parties, regarded as elites tied to globalization, are unable to appeal to this demographic. This constitutes a new political force making a pincer attack on the center from both the far left and the far right.

Figure 1. Cumulative real income growth between 1988 and 2008 at various percentiles of the global income distribution.



Note: available at <http://voxeu.org/article/greatest-reshuffle-individual-incomes-industrial-revolution#.V3gv38qZIRd.twitter> [accessed 18 November 2016].

A good example of this is the first round of voting in April’s presidential election in Austria. The two moderate candidates from the Christian democratic and the social democratic political parties together secured only just over 20% of the votes, but the far-right and far-left candidates respectively garnered about 35% and 21% of the votes. Even in general elections over the past few years, the two moderate parties have been surprisingly unable to secure more than 50% of the vote combined.

In the US, the Trump phenomenon that hijacked the Republican Party from the right as well as the Sanders phenomenon that chased Clinton from the left during the primaries could be seen as variants of this.

Ostensibly, though, this phenomenon is not observed everywhere. For instance, Japan has not seen a political landscape sharply polarized between the extreme right and left, and Spain's far right remains weak. That some countries are more susceptible to the phenomenon and others less means there are many factors at play: the number of immigrants, the degree of inequality, politico-historical legacies, path-dependence, etc.


In his book "The Globalization Paradox: Democracy and the Future of the World Economy," Dani Rodrik pointed out a globalization-national sovereignty-democracy trilemma, declaring that these three cannot be maintained at the same time.

This implies a developed country risk in the modern age, as these are troubles facing developed countries that are almost without exception democracies. In other words, one-party dictatorships such as China and authoritarian states such as Singapore can pursue sovereignty and globalization in combination, yet developed countries face a trilemma as they pursue deeper globalization while having to be sensitive to democracy in their own countries.

Advocates of simple globalization based on deregulation and liberalization have heretofore dismissed (often as "irrational") its democratic aspects as well as people in and below the middle class exercising their democratic rights. The EU is good in that it bundles together multiple governing authorities/national sovereignties, but it has disregarded the general public and democracy. What is occurring now is a backlash from those in and below the diminishing middle class.

What we need now is a double reform, domestic and international, à la J. A. Hobson. His *Imperialism* (1902) pointed out a two-level challenge: excess accumulated capital as the root cause of imperialism, and under-valued workers resulting in under-consumption inside the imperial metropolis. Hence the projected overseas capital has to be directed toward the valuation of domestic workers, both to reduce imperial power-projection externally and to build a social-democratic welfare society internally.

We cannot simply retreat into the national sphere by combining sovereignty and democracy. This would result in curtailing the positive effects of globalization. In the Hobsonian spirit, we should instead aim at rewarding workers, notably those in developed countries, by reforming and more effectively taming globalization, for instance by tackling tax havens and excessively speculative capital markets.

Brexit is truly of world historical significance, as it has shown abundantly clearly the risks of ignoring the pressing need for double reform. 

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