

The Brexit Column

Issue 3 October 2016

Vote blurs neat left-right division



Mark Essex

Mark predicted the result of the EU referendum 115 days before the vote with his forecast of 51 to 53 per cent leave. Mark is KPMG's Director of Public Policy.

mark.essex@kpmg.co.uk



Bill Robinson

Bill is a senior advisor to KPMG. Bill was an advisor to Norman Lamont during the Major government. He is an experienced macro-economist.

bill.robinson@kpmg.co.uk

It shocked the world, but the UK's vote to leave was predictable set in the context of recent political history. The victory for Leave was actually the culmination of a 20-year process, in which political parties' efforts to capture the middle ground unwittingly forged a powerful new alliance of disaffected voters. Bill Robinson, KPMG's former chief economist, analyses the tectonic shifts and Mark Essex, Director of Public Policy, sets out the potential impact on policy.

The way things used to be

To understand what happened on 23 June, we first need to understand that politics is not divided simply between left and right, but can depend on whether we are talking about social or economic policy.

On the economic front, the left favours higher taxes and government intervention, while the right favours lower taxes and free markets. Socially, the left seeks to reduce income inequality and supports gay marriage. The right argues that income disparities provide a work

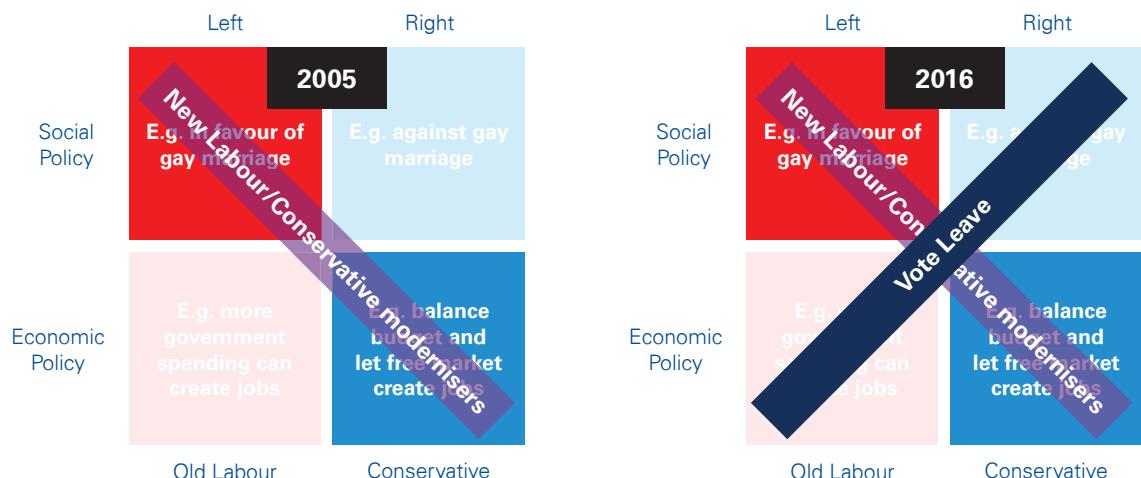
incentive and support traditional family values.

Up to the 1980s, the two main political parties neatly mirrored this left-right divide: Labour were to the left on both social and economic policy, and Conservatives to the right on social and economic policy.

New Labour tears up the script

New Labour changed this dynamic. Tony Blair, Gordon Brown and Peter Mandelson campaigned on an economic platform that stood a long way to the right of traditional Old Labour. It was a hugely successful gambit. It won the party three elections by attracting the aspirational, mainly younger, voters who were comfortable with a pro-market approach to economics, but had progressive social attitudes. There were, of course, many Labour voters who were not entirely comfortable with New Labour's approach to economics. But they were hardly going to vote Conservative. They had, in effect, been disenfranchised.





Conservatives steal New Labour's clothes

After successive election defeats, then party chairman, Theresa May, delivered the unpalatable message in 2002: the public saw them as the "Nasty Party". In an effort to combat that perception, modernisers led by David Cameron and George Osborne in essence used the same tactic as New Labour – but this time on social policy. They went big on preserving the environment, and a pledge to give more in international aid.

The 'compassionate conservatism' strategy worked. They won enough seats at the 2010 election to form a government (with the support of the Lib Dems who shared many of the values of the modernisers). Traditional Tory voters in the shires, though unenthusiastic about the new policy mix, were hardly likely to protest by voting for a Labour party that seemed to be edging back from its New Labour position. Like the Old Labour voters on the economic left, the Old Tory voters on the social right had been disenfranchised.

Revolt of the marginalised

The net result was two parties promising very similar policies aimed at the average voter, who was now presumed to lean right on economic and left on social issues. That left a frustrated mass who felt that nobody represented them. It was these voters who formed the core of Leave's majority.

There was always a strong Eurosceptic phalanx of MPs on the right of the Conservative Party. To appease them, and secure his general election victory in 2015, David Cameron put the promise to hold a referendum into the Manifesto believing that Labour voters could be counted to vote Remain in large numbers, so the risk of Brexit seemed small. The replacement of Ed Milliband by Jeremy Corbyn dramatically changed the equation. But to blame Brexit on Corbyn's half-hearted support for Remain is to miss the point. His election as Labour leader was itself a symptom of the widespread disaffection, diagnosed above.

The Brexit vote was a spasm of anger from those who had been disenfranchised for over 20 years and at last had a chance to express that anger.

You can't put the cork back

What David Cameron discovered in the early hours of 24 June, was an unlikely coalition of these two marginalised groups. But more than that, they discovered each other. This common knowledge is vital. Because these groups always claimed to be the silent majority. Now they have proved it. And it is now clear that a first-past-the-post general election cannot provide a mandate for confirming Brexit when it fails to take account of 17.4 million disenfranchised voters.

And based on Bill's analysis, a second referendum would surely be received as a conspiracy of the metropolitan elite against this new majority. This new-found strength in numbers is likely to have wider effects. In many ways, the UK:EU deal may not even turn out to be the

most important change heralded by the vote to leave. A re-balancing of the economy from South to North, more manufacturing and less financial services and a loosening of fiscal policy may just be the start of the change to come in post-Brexit Britain.

May targets all four squares?

There are clear signs that Theresa May understands the need to re-connect with the disenfranchised voters. Replacing George Osborne as Chancellor and abandoning the

target of fiscal surplus by 2020 are early moves in developing an “economy for the many, not the few”. On Sunday, she fleshed out “Brexit means Brexit”, pointing to immigration controls and the need to escape the jurisdiction of the European Courts. This will hearten those who voted Leave.

On social policy we see a Prime Minister re-introducing grammar schools – a totemic policy of social mobility in the shires – but also calls for employees to represent

workers on the boards of business. Is Theresa May bidding to occupy all four squares, and if so, is this what she means by one nation conservatism?

Things will become clearer in the Autumn Statement. But what needs no further clarification is that Vote Leave heralds much more change than simply the trading relationship with a group of 27 countries at the western end of the Eurasian landmass.



kpmg.com/uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.

No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. Printed in the United Kingdom.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.