

Did Austerity Cause Brexit?

Fetzer 2019, AER

Discussion by Joel Kariel

Outline

- 1 **Paper Summary**
- 2 Data
- 3 Specification and Results
- 4 Critiques

Paper Summary

Austerity since 2010 contributed significantly to 2016 Leave vote

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1. Austerity-induced reforms to the welfare state from 2010 were extensive (fall of $\approx 16\%$ per capita)
2. Diff-in-diff shows more austerity drove higher support for UKIP of magnitude 4 - 12%
3. Tight link between UKIP vote share and Leave support
4. Individual panel provides further evidence

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Electoral Data

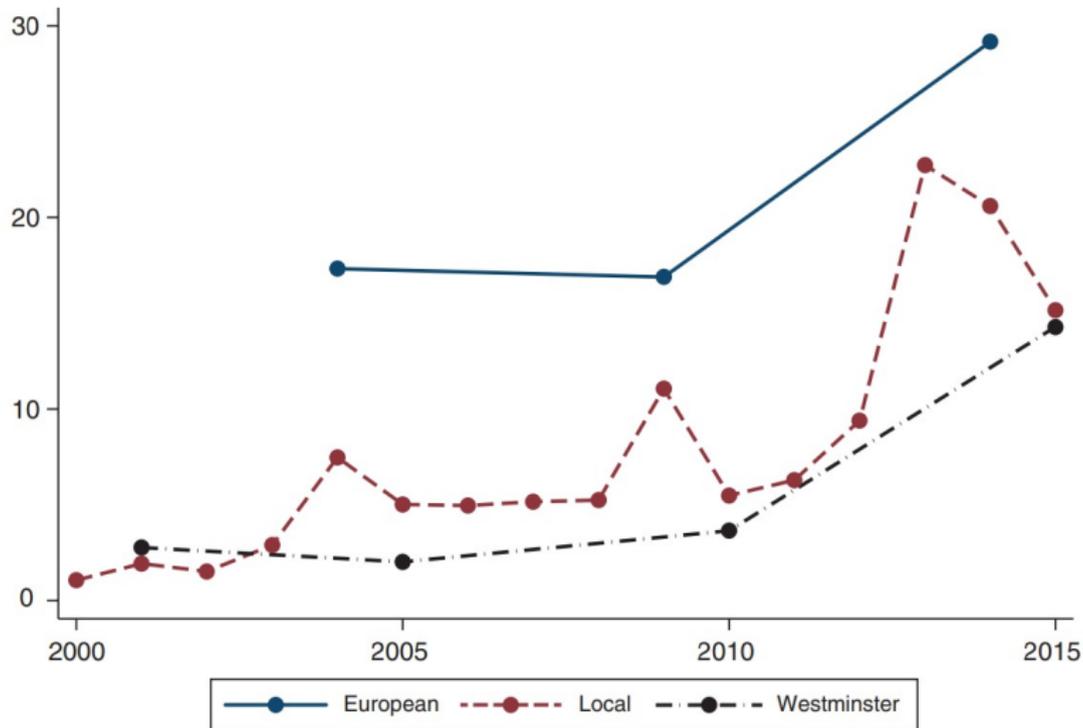
Data from three types of UK elections:¹

- **National:** 570 constituencies; adjust to 2001 constituency boundaries; acknowledges issue of FPTP voting
- **European:** 380 local authorities; PR voting might better reflect preferences; lower turnout causes issues
- **Local:** 380 local authorities; far more frequent; results aggregated at a higher level than actual elections

¹EU referendum vote share is just one data point; using UKIP allows better tracking of political preferences over time.

Electoral Data

Panel A. Across elections



Panel Data

- 40,000 households from 2009 - 2016
- Asked for party support, then alignment to party, then who they would vote for tomorrow²
- Support rises from around 2013, but rise is greater for individuals exposed to three welfare reforms studied

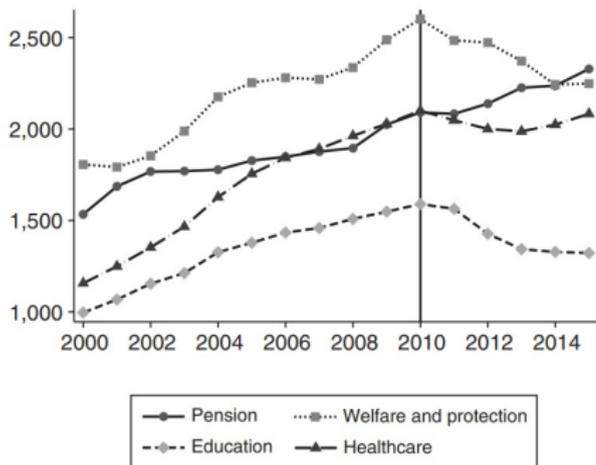
²Labelled as UKIP voters if 'yes' to any of these - could be problematic

Government Spending Data

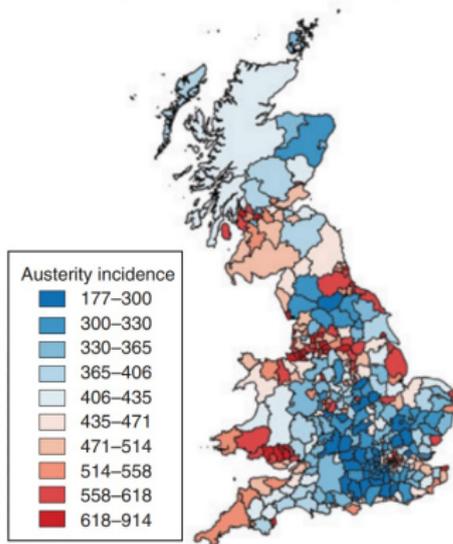
- Data from Beatty and Forthergill (2013) is from various official data sources
- For each welfare program:
 1. Overall saving to government
 2. Distribution of claimants by local authority
 3. How likely to be affected by reform
- Estimates don't seem to use any model: no estimate of how reforms might affect labour market behaviour

Government Spending Data

Panel A. Composition of government spending



Panel B. Spatial variation in austerity shock



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Regression Specifications

1. Diff-in-diff: how change in UKIP support post-2010 depends on exposure to welfare reform j

$$y_{i,r,t} = \alpha_i + \beta_{r,t} + \gamma \times \mathbb{1}(\text{Year} > 2010) \times \text{Austerity}_{i,j} + \varepsilon_{i,r,t}$$

2. Event study: year-varying coefficient

$$y_{i,r,t} = \alpha_i + \beta_{r,t} + \sum_{t \neq 2010} \eta_t \times \text{Year}_t \times \text{Austerity}_{i,j} + \varepsilon_{i,r,t}$$

3. UKIP and Leave vote shares tightly correlated

Results

1. Diff-in-diff: austerity caused UKIP's vote share to rise by 3.5 - 6.5% on average after 2010
2. Event studies: strong evidence of impact of welfare reforms some time after implementation date
3. UKIP and Leave: 1% swing to UKIP associated with a 1 - 2% higher support for Leave

Effect on Brexit?

$$\text{Leave vote share} = \beta \times \Delta \text{ UKIP} + \text{FEs} + \text{error}$$

$$\Delta \text{ UKIP} = \eta \times \text{Austerity} + \text{FEs} + \text{error}$$

Fetzer multiplies point estimates for β and η to get 6 - 11% impact of austerity on Leave vote

Control for Baseline Characteristics

How did rise in UKIP support depend on baseline characteristics of district?

$$y_{i,r,t} = \alpha_i + \beta_{r,t} + \sum_{t \neq 2010} \eta_t \times \text{Year}_t \times X_{i,\text{baseline}} + \varepsilon_{i,r,t}$$

Control for Baseline Characteristics

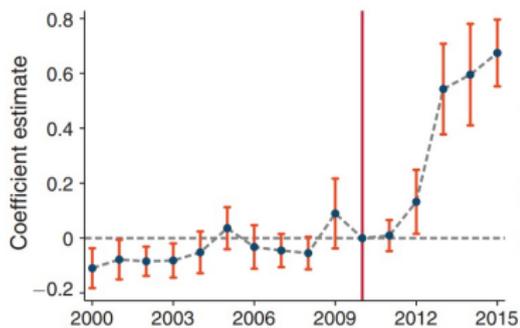
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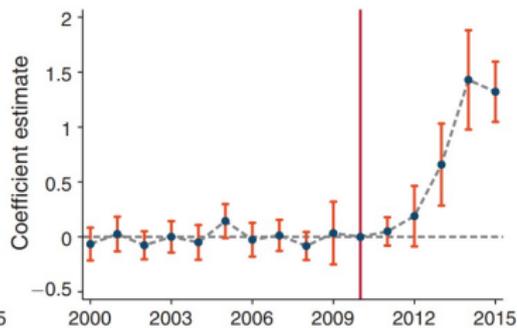
Fetzer shows that it rose in areas of low formal qualifications, high % of routine work, and employment in Retail and Manufacturing, *but only after 2010*.

Control for Baseline Characteristics

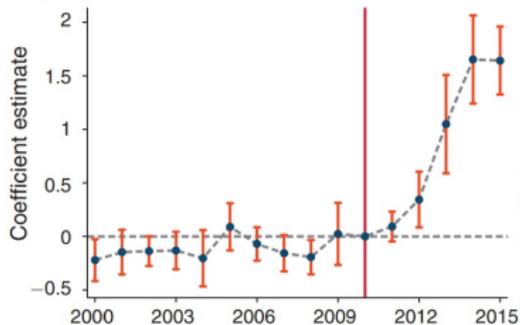
Panel A. No qualifications



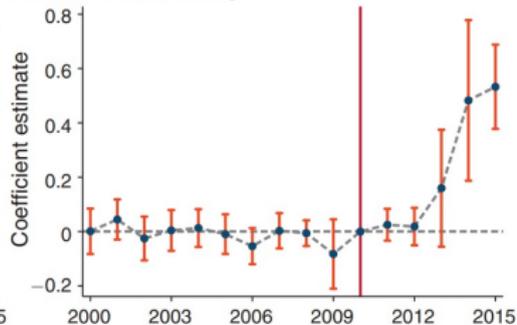
Panel B. Routine jobs



Panel C. Retail



Panel D. Manufacturing



Panel Approach

Hopes to deal with:

1. Selection into benefits: can focus on those who don't *seem* to be selected
2. Focus on UKIP share: did austerity affect support for other parties?
3. Composition of turnout: will welfare cuts affect incentive to vote?

Panel Results

1. Selection: treated population has increased support for UKIP between 2.5 - 5%
2. Impact on support for other parties:
 - Welfare reform weakly increases support for Labour (mostly from no party/would not vote) and Liberal Democrats
 - UKIP benefitted from lost support for Conservatives
3. Turnout: more likely to vote if more exposed to austerity (and evidence of greater dissatisfaction with politics)

Panel Regressions

Finally, panel data is used to link (binary) exposure to austerity $T_{i,d}$ with the Leave vote.

$$\Delta\text{UKIP}_{i,d} = \beta_d + \gamma_j \times T_{i,j} + v_{i,d}$$

$$\text{Leave}_{i,d} = \alpha_d + X_i' \beta + \phi_j \times T_{i,j} + \epsilon_{i,d}$$

Test $H_0 : \gamma = \phi$ against $H_1 : \gamma < \phi$

Further Panel Results

- At least 7% more likely to vote Leave if exposed to austerity
- Always reject H_0 in favour of alternative: evidence that additional factors drive Leave vote beyond expressed political preference for UKIP
- Relevant factors: belief that public officials don't care and vote doesn't matter, and being behind on payments for council tax/rent

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Latent Propensity to vote UKIP

What if it became **more acceptable to vote UKIP** (perhaps due to party strategy, or media coverage) at the same time austerity was implemented?

Anti-Austerity Parties

Wouldn't austerity push people towards explicitly anti-austerity parties?^{3,4}

³In fact, when UKIP vote collapsed in 2017, 46% went to Conservatives and just 12% to anti-austerity Labour party

⁴Evidence that austerity was *less unpopular* among UKIP voters than non-UKIP voters

Discussion Points

1. Do you think the overall estimates for the impact of austerity on Leave vote share (6 - 11%) seem plausible?
2. Focusing (mainly) on UKIP vote share makes sense from a data perspective, but might not convince you
3. Did globalisation drive Leave vote (Colantone and Stanig 2018)?
4. UKIP support from panel data is binary, but questions might be leading
5. Measured impact of welfare cuts is mechanical