

OPEN ECONOMY POLITICS AND BREXIT: INSIGHTS, PUZZLES AND WAYS FORWARD

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On June 23, 2016, a majority of 52% of British voters decided in a referendum that the United Kingdom should leave the European Union (EU). The decision sent shockwaves around Britain, Europe, and the world: the “Brexit”-vote presents the first instance that a country has voted to exit a major supranational institution, putting both the European integration project and the future of the UK in a globalized world into question. At the time of writing, four months after the referendum vote, the contours of Brexit remain unclear. Yet even within this short time frame, Brexit politics have been remarkable on both the domestic and the international level. In this paper, we first present a brief overview of IPE research in the Open Economy Politics (OEP) tradition. We then discuss the insights OEP provides that help us to better understand the referendum vote and Brexit politics, but also emphasize that they present a number of puzzles for OEP-inspired researchers. Based on this analysis, the final section suggests avenues for advancing the OEP research program.

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INTRODUCTION

On June 23, 2016, a majority of 52% of British voters decided in a referendum that the United Kingdom should leave the European Union (EU). The decision sent shockwaves around Britain, Europe, and the world: the “Brexit”-vote presents the first instance that a country has voted to exit a major supranational institution, putting both the European integration project and the future of the UK in a globalized world into question. At the time of writing, only a few months after the referendum vote, the specific contours of Brexit remain unclear. Yet even within this short time frame, Brexit politics have been remarkable on both the domestic and the international level, featuring among other things, the implosion of the opposition, the decision to pursue a “hard” version of Brexit, and a remarkably united front among the remaining 27 EU member states.

In this paper, we first present a brief overview of IPE research in the Open Economy Politics (OEP) tradition. We then discuss the insights OEP provides that help us to better understand the referendum vote and Brexit politics, but also emphasize that Brexit presents a number of puzzles for OEP-inspired researchers. Based on this analysis, the final section suggests avenues for taking the OEP research program further.

OPEN ECONOMY POLITICS: A SHORT PRIMER

Most recent research in the “American” International Political Economy tradition has been inspired by Open Economy Politics (Lake 2009).¹ OEP is characterized by a strong emphasis on microfoundations, which proceeds from the individual to the international-level in a linear fashion. OEP-inspired IPE research invests great effort in identifying the interests of individuals, firms, or sectors. It then analyzes how these interests are aggregated through domestic political institutions before moving to the international level, where it examines how these aggregated interests influence the interactions between states.

The Micro-Level: Interests

The interests of individuals, firms, or other economic actors with respect to a particular policy form the backbone of OEP-inspired IPE research. In what we call the “first generation” of

¹This is the school of research associated with the International Political Economy Society (<https://ncgg.princeton.edu/IPES/drupal/>). See also Cohen (2007).

OEP research, these interests were identified purely as material interests drawn directly from economic theory (Lake 2009).² The assumption is that those actors who are harmed by a policy will oppose it, while those who benefit from a policy will support it. For instance, those harmed by (benefiting from) trade openness will oppose (support) trade liberalization. In recent years however, a “second generation” of OEP-inspired research has emerged to challenge the importance of material interests in shaping the preferences of individuals. Work in the second generation emphasizes the importance of sociotropic interests, expectations, ideas and values in determining individuals’ international economic policy preferences.³

Preference Aggregation: Domestic Institutions

In the second stage of OEP, microlevel interests are aggregated through national institutions to produce a policy or national policy position for the international bargaining that then occurs. Officials – both democratic and undemocratic – want to remain in office and thus aggregate competing interests in a manner meant to further this goal. A first relevant domestic feature is the relative strength of political intermediaries, including voters, interest groups and political parties. For example, a large body of research examines how constituency characteristics shape legislator support on different policies.⁴ Past research on organized interests has shown that countries’ exchange-rate and trade policies are influenced by the strength of the tradables sector, and trade and FDI policies are influenced by the strength of organized labor.⁵ Additional research suggests that Left parties tend to be more likely to support international economic policies that reflect the interests of labor, while Right parties are more likely to promote the interests of capital.⁶

Second, the national institutional architecture matters. Different domestic institutional arrangements, such as regime type, the electoral system, the party system or the interest group system, create incentives for policymakers to privilege different interests. Institutions

² Indeed, this is one of the key innovations of OEP (Lake 2009, 2013). Examples for this approach include Rogowski (1989), Hiscox (2002), or Scheve and Slaughter (2001) on trade policy, Pandya (2010) for FDI policy, and Frieden (1991), Walter (2013) and Steinberg (2015) for international finance and exchange-rate politics (for reviews, see Kuo and Naoi 2015; Walter 2014).

³ Prominent examples include Hainmueller and Hiscox (2006, 2007) and Mansfield and Mutz (2009). For a review, see Kuo and Naoi (2015) on trade policy and Hainmueller and Hopkins (2014) on immigration policy.

⁴ Much of this research focuses on support for policies in the context of US roll call voting. Examples on trade policy include Nollen and Quinn (1994), Feigenbaum and Hall (2015), Hiscox (2002), Milner and Tingley (2011), Rickard (2015), and Owen forthcoming; as an example on international financing, see Broz (2008).

⁵ On interest group pressures in trade policy, see for example Grossman and Helpman (2002) and the review by Goodhart (2015), in exchange-rate policy see for example Frieden (2002). On the role of unions on trade and FDI policy, see Conybeare and Zinkula (1996), Ahlquist et al (2014), Dean (2015), and Owen (2015). On the strength of labor and welfare spending, see Rudra (2008).

⁶ On the effect of party politics, see for example Simmons (1994), Clark (2003), Milner and Judkins (2004), Pinto (2013), Quinn and Inclan (1997), and Quinn and Toyoda (2007).

determine whose interests receive more weight in the decision-making process.⁷ In short, the domestic institutional context shapes how interests are aggregated, and thus the influence of particular groups on policy outcomes. Therefore, different domestic institutions are likely to produce different policy outcomes.

International bargaining and cooperation

In the third stage of OEP, countries negotiate with one another over the solution of international problems, the implementation policies, and the creation and functioning of international institutions. Thus, OEP emphasizes the formation and characteristics of international institutions (that is, why do states create and join international institutions?). OEP also examines how these institutions regulate interactions and resolve conflict, including distributional conflicts, when policies have externalities (that is, what is the impact of institutions on policy outcomes?). IPE research has particularly focused on the design of, impact of, and compliance with international agreements,⁸ as well as multilateral institutions like the WTO and IMF and World Bank.⁹ Thus domestic factors interact with systemic factors (Chaudoin et. al 2015). Moreover, these international interactions then can have feedback effects at the domestic level, for example by strengthening and weakening domestic groups or providing credibility at the domestic level.¹⁰

OEP INSIGHTS AND PUZZLES ON BREXIT

⁷ Consider the following as examples from this vast literature: (1) democratic regimes tend to privilege the interests of labor relative to non-democratic regimes (e.g., Bearce and Hallerberg 2011; Milner and Kubota 2005, Pandya 2014); (2) among democratic countries, the interests of labor are better represented in the lead up to elections, whereas narrow special interests are more influential when no elections are pending (e.g, Blomberg, Frieden, and Stein 2005); (3) different electoral systems privilege dispersed over concentrated interests, which interacts with a country's economic geography to determine influence (e.g., Busch and Reinhardt 2000; McGillivray 2004; Menendez 2016; Rickard 2012) (4) an increasing number of veto players reduces the effect of societal pressures in trade policymaking (e.g, Henisz and Mansfield 2006) (5) different types of autocratic regimes will privilege different types of interests (e.g. Steinberg and Malhotra 2014, Kono 2015)

⁸ Examples of this vast field of research includes research on trade agreements (e.g, Goldstein, Rivers, and Tomz 2007; Manger 2009; Mansfield and Milner 2012; Rosendorff and Milner 2001; for reviews, see Johns and Peritz 2015; S. Y. Kim, Mansfield, and Milner 2016), international investment (e.g, Elkins, Guzman, and Simmons 2006; Gray 2013; Wellhausen 2015), or international regulation (e.g, Drezner 2007, Singer 2007). On the design of international institutions more generally, see for example Koremenos et al. (2001).

⁹ On the WTO, see for example the reviews by Davis and Wilf (2015) and Busch and Pelc (2015). On the IMF, see for example Vreeland (2003), Copelovitch (2010), and the review by Steinwand and Stone (2008). On international organizations more generally, see for example Hawkins et al. (2006).

¹⁰ See for example Pevehouse (2005), Owen and Fang (2011), or Baccini and Urpelainen (2014), for a review see Vreeland (2015).

The British referendum vote in favor of Brexit and the early months of British Brexit-politics have left many observers stunned. OEP-inspired international political economy provides a number of insights into these developments. Yet, on each level of analysis, Brexit politics raise a number of puzzles that cannot easily be explained from an OEP-perspective.

Micro-level Interests: Why did the British vote for Brexit?

To some extent, the outcome of the vote in favor of Brexit is not a huge surprise from an OEP-perspective. IPE research has long emphasized that support for free trade and international economic integration hinges on compensating the losers of these processes (e.g., Hays, Ehrlich, and Peinhardt 2005; Rodrik 1998; Ruggie 1982; Schaffer and Spilker 2016). The risk that a failure to compensate the losers of globalization can lead to a protectionist backlash is therefore well understood (e.g., Scheve and Slaughter 2007),¹¹ even if IPE researchers probably underestimated how far globalization losers might be willing to go in their backlash when given the chance to galvanize their discontent in a simple dichotomous vote.

In line with this argument, the dominant interpretation of the vote both in the media and among scholars has been that *globalization losers* voted to leave the EU (see for example Hobolt 2016). Analyses of the referendum vote suggest that regions hit harder by import shocks from China (Colantone and Stanig 2016) and regions which had recently seen a sharp rise in immigration (Goodwin and Heath 2016) were more likely to support Leave. Similarly, there is evidence that *globalization winners* voted to remain in the EU. For instance, more educated people were much less likely to vote for Brexit, and greater London, a highly globalized area, voted staunchly to remain in the EU (Hobolt 2016). This evidence is consistent with the “globalization winner/loser”-argument and poses no surprise to scholars in the OEP tradition.

Yet, a closer look reveals that the interpretation of the Brexit vote as a vote by globalization losers is at odds with two observations: First, contrary to the expectation that exposure to the globalization risks should increase the Leave-vote, regions with a high proportion of immigrants – and hence a higher exposure to the economic and cultural consequences of immigration – tended to vote Remain (Goodwin and Heath 2016). Second, the Leave

¹¹ For the impact of globalization losers on support for incumbents in the U.S., see Jensen, Quinn and Weymouth 2016 and Margalit 2011.

campaign forcefully argued that Brexit would allow the UK to more fully exploit the benefits of free trade than as a member of the European Union. Trade itself – a key dimension of globalization – was portrayed very positively. A key argument of the Leave-campaign was that Brexit would allow the UK to become even more “globalized,” an argument that resonated with Leave-voters: For example, Hobolt (2016) finds that the belief that “Brexit will not reduce trade” is one of the strongest predictors of a pro-Brexit vote. Her data also shows that 39% of Leave voters believed that international trade would be higher post-Brexit, whereas only 6% of Remain voters shared this belief.¹² And the British Election Study finds that only about 8.6% of Leavers felt that trade with the EU was bad for Britain. Although Leavers were more likely to say that trade with the EU is neither good nor bad (37.3%) than Remainers, whereas the latter unequivocally (89.1%) felt that trade with the EU is good for Britain, almost one in two Leavers (47.9%) also agreed that trade with the EU was good (British Election Study 2016b). This high popularity of free trade amongst those who voted to leave the European Union is difficult to understand from an OEP-perspective.¹³

Indeed, rather reflecting than a backlash of “globalization losers,” the Leave vote seems to have been driven by voters who feel uncomfortable in the modern, open world more generally (British Election Study 2016a; Kaufmann 2016). In today’s world, the low-skilled are pressured not only by globalization, but also by technological and societal change, and often do not receive enough support to deal with these challenges of modernization. The combination of these pressures seems to have created such a level of dissatisfaction among sizeable parts of the British electorate, that they have been willing to take the risk of potentially imposing enormous economic self-harm on themselves. Although this willingness is puzzling from a first generation OEP perspective, “second generation” OEP research, with its emphasis on sociotropic concerns, values and ideas, offers a few clues here. But the Brexit vote also shows that we need to develop a better understanding of the interplay of globalization with other major societal developments.

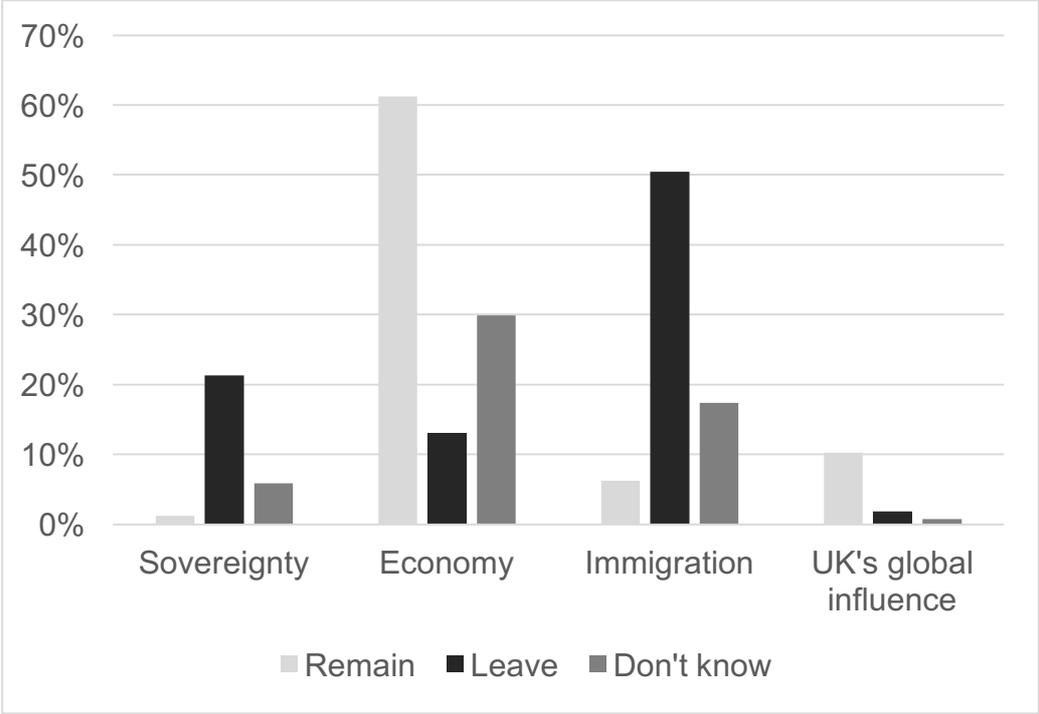
The biggest puzzles of Brexit for OEP research are related to the fact that that it does not offer persuasive explanations as to why different dimensions of the Brexit-question dominated among different groups of voters and why individuals’ expectations about the consequences

¹² Indeed, a majority of Remain voters (61%) believed that trade would be lower post-Brexit (analysis based on the data provided in Hobolt’s replication package).

¹³ It is also one of the key differences between the Brexit referendum and the election of Donald Trump as US president.

of Brexit differed dramatically. To illustrate this puzzle, Figure 1 shows which issue had the biggest influence on individuals’ referendum vote intention for those intending to vote “Remain”, “Leave” and those undecided based on an original YouGov poll conducted two weeks before the referendum vote.¹⁴ It shows that the motivations for voters supporting Remain were very different from those in favor of Leave. Most striking is the fact that for the majority of Leave voters, the impact of Brexit on immigration is the primary reason for their choice, followed by the impact of Brexit on British sovereignty. In contrast, almost two thirds of Remain voters cite the impact of Brexit on the economy as the primary issue motivating their vote, with concerns about the impact on the UK’s global influence as the second largest category among Remain voters.¹⁵ This focus on the economy and immigration is what many OEP researchers would expect. However, what is puzzling from an OEP perspective is that immigration was the most salient issue for Leave voters—even though leave voters tended to live in areas with low levels of immigration density and chronic economic problems—while arguments about the economic risks associated with Brexit only resonated among Remain-voters.

Figure 1: Issue salience for Brexit referendum vote



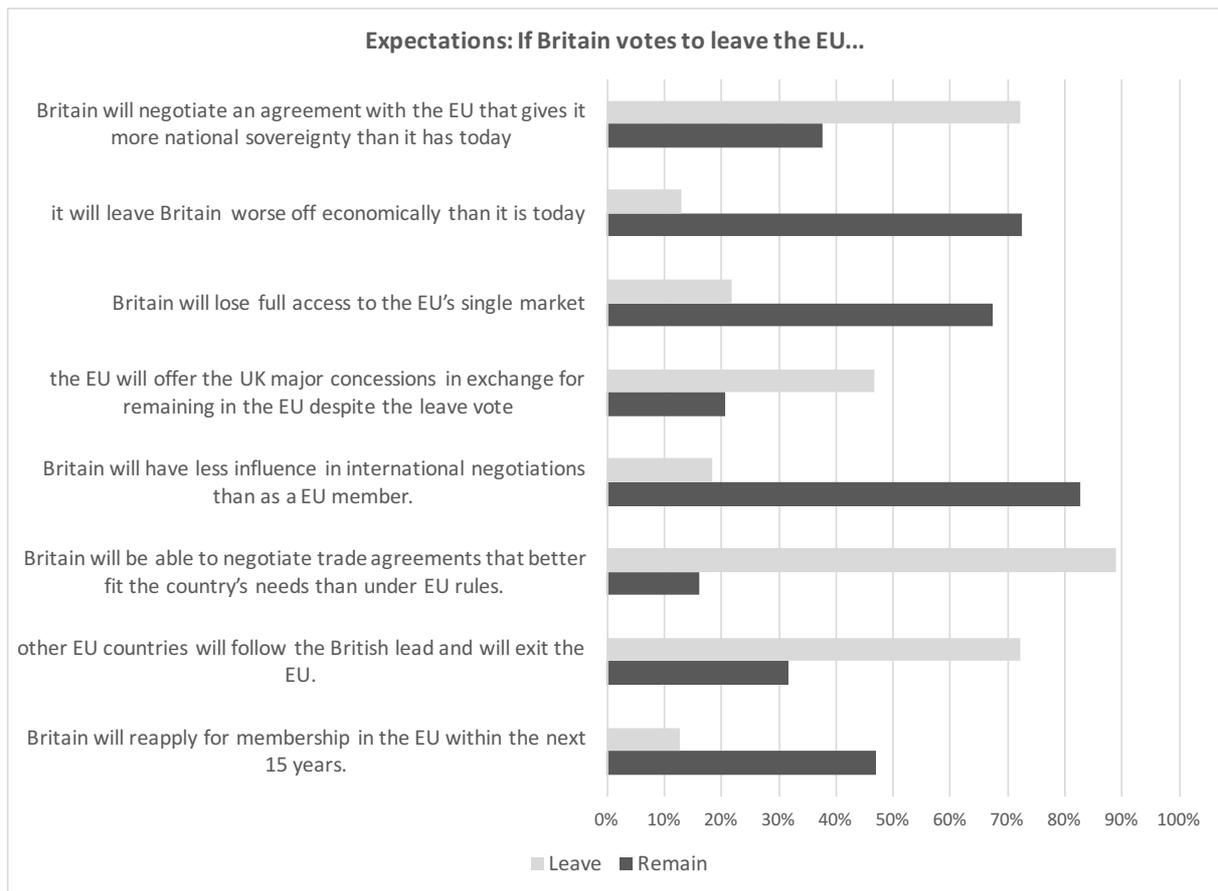
¹⁴ YouGov online poll (designed by Stefanie Walter, fielded on June 7, 2016, N=1778).

¹⁵ Leave and Remain voters also have very different views about the effect of immigration on Britain, with 64.8 percent of Leave voters stating immigration has had a negative or very negative impact on Britain, compared to 11.7 percent of Remain voters.

Note: Survey question: *“Which of the following will have the biggest influence on your decision of how to vote in the EU referendum of 23 June 2016? The effect of leaving the EU on...”*

In the same vein, Figure 2 uses data from the same survey to show that there was also considerable variation in expectations about the consequences of Brexit across both groups. Leave voters were much more optimistic about the opportunities for Britain in a post-Brexit world: they were more likely to expect that Britain would sign a new agreement with the EU that increased national sovereignty and that Britain would be able to negotiate better trade agreements. Remain voters were much more pessimistic, expecting that Britain would be worse off economically and would have less influence in international negotiations. Although this pattern is not unusual in high-stakes foreign-policy referendum contexts (Walter et al. 2017), this large variation in salience of topics and expectations about the consequences of Brexit across voters on a single (though complex) policy question cannot readily be answered with insights from existing IPE research. Although some of this difference can probably be accounted for by motivated reasoning, this difference in expectations poses a challenge for OEP research. Policy preferences in the OEP framework are preferences about different expected outcomes. As such, material interests do not translate into policy preferences directly, but are shaped by individuals’ expectations about the consequences of certain policies. OEP research predominantly focuses on the underlying sources of different preferences, implicitly assuming that the individuals vary in their assessment of different potential outcomes, but not in their expectations about the nature of these outcomes. The Brexit example shows, however, that policy preferences are likely to be shaped not just by interests and/or ideas, but also by expectations about outcomes.

Figure 2: Expectations: “If Britain votes to leave the EU...”



Domestic level: The national politics of Brexit

The domestic politics of Brexit are much more puzzling from an OEP perspective. Three aspects are particularly striking.

First, the government's repeated decisions to opt for economically highly risky and extreme strategies are difficult to explain from an OEP perspective. Starting from David Cameron's decision to call a referendum on EU membership for party-internal reasons, to Theresa May's decision to immediately rule out any "soft" variants of Brexit in the face of a technically non-binding referendum decided by a relatively small margin of votes (52 to 48 percent in favor of Brexit), the British government has repeatedly opted for very extreme policy options. Rather than searching for a "middle of the road" approach that would give Britain some independence but still keep it close to the European Union and its single market, the British government under Theresa May has opted for a clean break and has even threatened to walk away from the negotiations without any agreement or post-Brexit arrangement. This lack of moderation in the face of competing interests and a democratic institutional setting whose checks and balances usually have a moderating influence, is puzzling from an OEP

perspective, especially because it appears to go directly against Britain's aggregate economic interest.¹⁶ Although OEP research has long recognized that domestic politics create incentives for governments to pursue policies that are suboptimal from an economic perspective, the willingness to risk cutting a traditionally open, liberal and internationally integrated country such as Britain off from its main trading partner, the European Continent, nevertheless comes as a surprise, especially as the economic losses are likely to be large, visible and, despite being particularly strong for elites, widespread.

Second, OEP has difficulties explaining the emergence of one overriding policy goal – reducing or controlling immigration – in a highly complex, multi-issue policy question. Immigration has become the defining issue of the May government's Brexit-policy, with policy proposals (such as asking firms to submit lists of foreign works in order to “shame” them) that go far beyond what was promised during the campaign. Because access to the EU's single market is conditional upon accepting the free movement of people, the May government has signaled that it is willing to give up single market access if necessary, despite the large economic damage this is likely to inflict on the British economy. The decision to relegate the UK's economic interests to second or third-order importance and to define one single issue, limiting immigration, as the overriding national policy goal rather than maximizing Britain's interests on multiple dimensions is truly puzzling from an OEP perspective, especially as other issues, such as spending more money on the National Health System, were also dominant themes during the referendum campaign.

Finally, the lack of influence of domestic actors that are usually seen as influential – such as the financial sector, the business community, and those of the liberal, well-educated elite – on current government policy is perplexing from an IPE perspective. These groups are usually those that can organize best and therefore tend to be politically most influential (Goodhart 2015). Whereas the lack of influence of vested interests on the referendum vote is less surprising, because referenda are designed to give voters disproportionate influence over policy, OEP would not have expected that the interests of these groups would be sidelined to the extent that they have in post-Brexit politics. Moreover, the opposition (most notably Labour, but also UKIP), almost imploded after the Brexit vote. Considering that the Brexit-vote could have offered them the opportunity to present themselves as a good alternative to

¹⁶ That said, the moderate response to Brexit from financial markets (the pound has plummeted to historic lows, but stockmarkets rose and other economic indicators have held up well in the months following the Brexit votes) is puzzling from an IPE perspective in its own right.

those voters unsatisfied with the Tory/May-approach to implementing Brexit, OEP has difficulties explaining both the interest group and partisan politics of Brexit.

The international politics of Brexit

On the international level, Britain and the remaining 27 EU member states will have to bargain about the terms of Brexit and their future relationships in the coming years. These negotiations have not yet begun, but the general setting is clear: it is one of asymmetric interdependence, with Britain in the weaker position. The institutional rules for leaving the EU, as specified in Article 50 TFEU, are set up in a way that disadvantages the leaving state. Yet the EU-27 see themselves confronted with the huge tasks of maintaining a united front and safeguarding the stability of the EU, while being pressured by their own Euroskeptic movements at home and industries worried about the loss of UK market access.

So far, the EU-27 have taken a very unified position with respect to Brexit: they have firmly held the line that they will not engage in any unofficial bargaining before Britain has officially notified the EU of its intent to leave the Union. They have also been unified in their position that the four freedoms of the single market (free movement of goods, services, capital, and people) are inseparable. This is the type of positioning and bargaining behavior that OEP theories on international bargaining would predict for a set of countries that has the upper hand in terms of bargaining power because it is economically less dependent on the British market than vice versa, but which has a strong incentive to take a hard line against the UK to prevent additional members from leaving the EU in the future. That said, OEP-inspired IPE research does predict that there will be more divergence in the EU-27 bargaining position once negotiations commence and the issues become more fine-grained.

More puzzling, however, has been the negotiating position taken by the UK, which seems to be informed by a gross misperception of Britain's bargaining power both by the Cameron and the May governments. Although two-level bargaining (Putnam 1988) is well-understood in IPE, it is puzzling that the UK seems to repeatedly discount the political constraints faced by the other EU member states. For example, in his pre-referendum attempts to renegotiate the UK's position within the EU, David Cameron seems to have underestimated the difficulties of negotiating a sweeping deal with 27 member states, all bound by their own domestic politics and possibly referenda to ratify potential treaty changes (Menon and Salter 2016). Although Brexiteers have emphasized the interdependence between Britain and the other EU states,

which creates strong incentives for the EU states to maintain a cooperative arrangement with the UK, they largely interpret this in Britain's favor, rather than appreciating the asymmetric nature of this interdependence. Moreover, many UK politicians seem to discount the political risks that a very positive deal for the UK would pose for the stability EU as such, especially in a context of rising populist Euroskeptic sentiments in many member states. At the same time, Brexiteers seem to assess the reversion point of failed negotiations (trade on WTO terms) much more positively than most IPE analyses would suggest. The concrete bargaining strategy also raises questions: It is surprising that Theresa May committed herself to a firm deadline (March 2017) for triggering Article 50. Not only does this remove one of the main negotiation levers on the British side, it also starts the Brexit negotiations shortly before important French and German elections, which IPE research suggest should not work the UK's favor (e.g, Kleine and Minaudier 2016). Taken together, the British bargaining position and strategy so far has been surprising from an OEP-inspired IPE perspective, which does assume that national governments act rationally on the international level.

WAYS FORWARD

The puzzles raised by Brexit suggest several directions in which future OEP-inspired IPE research could be fruitfully extended at micro-, domestic- and international levels. Although these extensions could generate a better understanding of Brexit-politics, we believe that more attention to the issues discussed below more generally would move the field forward.

Interests: Material interests and ideas in multidimensional contexts

The Brexit referendum demonstrates that the debate that has emerged between first- and second-generation OEP scholars on whether material interests *or* ideas, sociotropic concerns, and values better explain individuals' or firms' policy preferences misses a central point: both interests *and* ideas matter. Future OEP-research would therefore benefit from embarking on a "third generation" of microlevel-OEP research, that focuses on the interplay between interests and ideas, and variation across individuals in how they evaluate issues.

First, such "third-generation" research should examine *when* and *for whom* material interests dominate preferences on international economic policy issues, and when and for whom ideas and values matter more. Several recent studies have begun to investigate this question. One

important finding is that material interests can have considerable explanatory power, especially when they are correctly identified, for example by relying on newer economic models of the distributive effects of a given policy, such as ‘trade in tasks’-models (Owen and Johnston forthcoming) or new new trade theory (Naoi and Urata 2013; Owen and Quinn 2016; Osgood et al. 2016; Walter 2017). Material interests also appear to matter more when policies are specific and have clearly identifiable beneficiaries or losers. Indeed, those with a clear material stake in a specific policy have been found to express very pronounced preferences in line with their material interests (Ahlquist, Copelovitch, and Walter 2016; Malhotra, Margalit, and Mo 2013; Steinberg and Nelson 2016). In contrast, when the policies are rather vague (“free trade”), ideas/values seem to matter more than material interests (Mansfield and Mutz 2009). Finally, people seem to be more likely to express preferences in line with their material self-interest when they have more information about the distributional consequences of a policy (Bearce and Tuxhorn 2015; Rho and Tomz 2015; c.f. Guisinger 2015). These studies suggest that more research into the conditions under which material interests or values matter is critical. On the empirical side, further research on material interests must also address the methodological challenge that, to date, ideas are measured relatively precisely in surveys, while material interests are typically operationalized with broad proxies (e.g. “high skill”) based on simple and sometimes outdated theories.¹⁷ Not surprisingly, the effect of material interests on preferences tends to be weaker in substantive terms and less precisely estimated than the effect of individual attitudes and values if material interests are misspecified or mismeasured. More generally, it is important to include more occupational, industry and locational identifiers in survey research that would allow researchers incorporate measures of exposure to and the nature of international competitive pressures from external data sources.

Second, IPE scholars should consider in more detail how material interests interact with ideas and values. For example, do certain ideological predispositions make people more or less likely to focus on their egotropic material interests? Do sociotropic concerns influence egotropic concerns and vice versa? How are objective material interests and subjectively perceived economic risks related? And how do political parties and other political entrepreneurs intervene to shape individuals’ assessments of their material interests? For example, in the Brexit referendum, many people voted for something that is arguably likely to

¹⁷ The widespread use of the Stolper-Samuelson Theorem for identifying the distributional consequences of free trade is a good example.

hurt them materially. This is only a puzzle if one assumes that these people were aware of this. Instead, survey evidence suggests that many Leave-voters thought Brexit would be materially beneficial for them, at least in the long run – which was precisely what the Leave camp argued forcefully.¹⁹ This resonates with a large body of literature that documents that partisan cues play an important role in influencing vote choice (Hicks, Milner, and Tingley 2014; S. Hobolt 2007; Urbatsch 2013) and expectations (Walter et al. 2017) in foreign-policy related referenda. A number of recent studies have embarked on investigating these interrelationships between ideas and interests (see for example Curtis 2014; Fordham and Kleinberg 2012; Goldstein and Peters 2014; Guisinger 2015, Guisinger 2016; Lü, Scheve, and Slaughter 2012; Mansfield, Mutz, and Silver 2015; Margalit 2012, Sabet 2016), but more research is needed on when and how people’s subjectively perceived material interests are in line with their objective material interests, and when, why, and how they diverge.

Third, IPE research should move away from explaining singular policy preferences and focus instead more on the multiple dimensions involved in political decisions. As we saw in Figure 1, individuals’ Brexit preferences were shaped by concerns about immigration, the economy, and national sovereignty, but the relative importance of these issues varied widely and systematically among respondents. This raises the general question of which issues emerge as relevant determinants of the preferences of voters and firms on a policy, and thus shape vote intentions or lobbying efforts? In recent years, there have been a number of promising developments in IPE research that tackle these questions. For example, a growing body of research focuses on how individuals evaluate the trade-offs inherent in many policy questions (for example, Bernauer and Nguyen 2015; Naoi and Kume 2011). One finding here is that different institutional and political contexts influence how voters evaluate the trade-offs inherent in similar economic developments such as globalization. For example, free trade creates much more concern about trade policy in contexts with a limited welfare state, whereas it strongly conditions preferences on redistributive policies in contexts with more developed welfare regimes (Schaffer and Spilker 2016; Walter 2017).²¹ Another promising development is the increasing use of conjoint experiments, which allow researchers to empirically gauge the relative salience of different policy dimensions and their importance in

¹⁹ For example, in the above survey, 73% of prospective Remain-voters believed that a post-Brexit agreement with the EU would leave the UK worse off economically, compared with 6% of prospective Leavers.

²¹ This is why the dominance of studies focused only on the US is a problem, given that it is difficult from the peculiar US context (a large closed economy with a rather unique political system and a limited welfare state) to other contexts.

shaping individual policy preferences and political choices (e.g., Bechtel, Hainmueller, and Margalit 2014; Hainmueller and Hopkins 2015; Kim et al. 2016). But more research is needed to identify both on a theoretical and an empirical level how and in what contexts specific issue dimensions matter for different individuals and firms, when they become politically consequential, and how variation in the ordering of issue salience can be explained.

Domestic politics: Preference aggregation in multidimensional contexts

Given the dominance of single issues on the micro-level, it is not surprising that most OEP-inspired IPE research on how micro-level preferences get channeled through the domestic political system equally concentrates on single issues and how single-issue preferences are translated into policies. But politics is never unidimensional, instead involving trade-offs between different, sometimes mutually exclusive, objectives. Understanding how policymakers decide on the relative importance and political salience of different goals under different institutional settings is key to understanding the trade-offs involved for policymakers as preferences are aggregated and translated into policies.²²

One of the key questions in this regard is which issues and voter concerns are taken up by policymakers, and which ones are disregarded. For instance, post-Brexit, the British government declared that the overriding mandate of the referendum vote was to limit immigration, even if this position risks losing access to the EU's single market, creates foreign policy tension, and is likely to inflict economic harm on the country at least in the short to medium-run. Under what circumstances can one issue emerge as the overriding concern, dominating all other policy issues? How do policymakers deal with such multidimensional issues? Does the increasing use of referenda imply that policymakers increasingly prefer to let voters decide on complex issues by reducing them to simple dichotomous questions? And to what extent do policymakers and partisan elites strategically interact with voters, cueing them on their preferred policies and relative salience of different issues in order to generate votes that facilitate the pursuit of their own policy goals despite potential incongruence between voter and elite interests? More generally, future IPE research should explore in more detail how the salience of policy dimensions and issues, the evaluation

²² Several recent examples of research address this concern about the relationship between two or more policy areas (see for example Leblang 2010; Mosley and Singer 2015; Pandya 2016; Peters 2015). Trade-offs have also been a key focus of research in international money and finance that builds on the open economy trilemma (e.g., Bernhard, Broz, and Clark 2003; Broz and Frieden 2001).

of policy trade-offs by policymakers, and the reactions of policymakers to these trade-offs vary across time and contexts.

A second question revolves around policymaking in the face of populist challenges. The lack of influence of the interests of the “usual suspects” on British Brexit politics suggests that strong populist challengers might change the ways in which preferences are channeled into policies. The conventional wisdom of existing research has a hard time explaining the British decision to strongly privilege the immigration restrictions demanded by a subset of British voters over the interests of the financial sector, the business community, and the country’s liberal elite. Future research should therefore explore more deeply which role special interests and different voter groups have in political settings characterized by populist politics. Brexit provides an interesting starting point for both empirical and theoretical inquiries on this question, but the rise of populist politicians across Europe and the US shows that this phenomenon is not limited to the UK context. To the extent that the outcomes of national policy decisions (such as Brexit) are importantly shaped by the international reactions to those decisions, studies of domestic policymaking would also benefit from considering how strategic considerations and international constraints interact with domestic populist challenges to shape policymaking at home.

The international level: Understanding the politics of disintegration

The bulk of existing IPE research has focused, in one way or another, on the politics of integration. Many studies have examined how international institutions are created, how they work, and how they enable international cooperation. The Brexit referendum has forcefully demonstrated that integration is not a one-way street, however: while rare, disintegration can and does happen. Future research should therefore focus more strongly on the politics of disintegration.

First, a decision in favor of disintegration is likely to have international spillover effects. Especially when a country decides to disintegrate from an organization with which it has many close ties, this is a huge shock to the country and the other members of the organization. In addition to negative economic consequences for both leaving and remaining members, the national decision to disintegrate influences national politics in other countries as well: for example, it can strengthen integration skeptics abroad, but can also strengthen support for

integration, as people stop taking membership in the international organization for granted.²³ Future OEP research should move to investigate these externalities in more detail.

Second, the international politics of disintegration are likely to be different from the international politics of integration. Disintegration is likely to be much more painful than choosing not to integrate in the first place. It disrupts cross-border production chains, business ties, and policy cooperation in a wide variety of areas. As such, the decision of one member state to leave an international institution not only involves opportunity costs of unrealized gains from cooperation, but generates real economic costs in all the cooperating states. Moreover, disintegration by one member state can create contagion effects, creating disintegration pressures in other member states as well. The biggest threat the remaining members of an international institution face in the case of a disintegration decision of one member state is hence the fear of contagion and an eventual break-up of the entire regime (Walter et al. 2017). Faced with that risk, the other member states have incentives to make the “divorce” as painful as possible, so as not to encourage other member states to follow, even if the loss of cooperation gains is costly to them as well. Moreover, the rules governing disintegration tend to put the leaving state in a disadvantaged position. As a result, disintegrating from an international institution is likely to leave the country in a worse place than if it had never joined in the first place. Much more research is needed on the international politics of *leaving* an international institution, both in the run-up to a disintegration decision the negotiations on the terms of exit, and the dynamics following the withdrawal of one of more member states from a regime.

Finally, IPE research should carefully consider the systemic effects of disintegration (see also Oatley 2011). Brexit is not just a singular event, but just one example of a wider number of cases, in which countries have decided to partially or fully leave an international institution. All of these instances are rather recent, such as several Swiss referenda aimed at forcing the government not to comply with parts of Switzerland’s bilateral treaties with the EU or the Burundian parliament’s decision to withdraw from the ICC. We also increasingly see instances in which the rules and norms of international institutions are openly violated or put in question, such as decisions by Poland or Hungary that openly breach EU rules. Likewise, US president Donald Trump has threatened to terminate NAFTA unless the other two member states, Mexico and Canada, agree to a re-negotiated agreement that serves US

²³ Post-Brexit, for example, public support for the EU has risen across most other EU member states.

interests best. More generally, the new US administration shows that violations of international commitments and norms and a withdrawal from key international institutions may even be engineered by the world's hegemonic power. What are the systemic repercussions of these developments?

CONCLUSION

This article has shown that OEP research offers considerable insight into Brexit at both the micro and international level, while confronting a number of puzzles at the domestic politics level. While Brexit raises questions for political science in general, these puzzles are particularly important for OEP research. Overall, the discussion has shown that OEP-inspired IPE research is well-suited to exploring the micro-level, domestic politics, and system-level implications of the processes associated with Brexit and similar events, and we suggest a number of ways forward for OEP research at each level. However, Brexit also suggests fruitful avenues of research in which different levels of OEP research interact with one another. For example, IPE studies focused on the micro-level should pay more attention to both domestic and international contexts, domestic-level studies could more systematically reflect on the systemic implications of national policies, and studies on the international level could benefit from considering the feedback effects of system-wide policies on the individual and national level in more detail. Exploring the questions set out in this article promises to provide important insights into the issues highlighted by Brexit politics. As such, the current backlash against globalization provides OEP research with many new opportunities to test, refine and develop our theories of international economic policymaking.

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