

Welcome Address WWWforEurope Final Conference

25 February 2016

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I. THE EUROPEAN EXPERIMENT: There is a history of large states with varied and extensive areas unified by conquest, which at least tried to impose a uniform language: the Roman Empire, China, the Ottoman Empire. Others have grown large by expanding into very lightly populated areas (United States) and some by a combination of these methods (the British Empire or Russia). Europe is unique in trying to integrate a number of well-organized states, with diverse languages and history, into a unified structure; further, a set of states which had historically been enemies in wars (though with shifting alliances), including very recent ones. Indeed, much of the motivation for a Europe-wide unity was to overcome the hostilities of the past, and this overwhelming success must never be forgotten.

There has long been a view, dating back at least to the 18th century, that economic relations will tend toward peace. Trade brings mutual benefits which are lost in conflict. This view did not prevent two world wars in the 20th century, but it was explicitly stated by Jean Monnet and Robert Schuman as they laid out the concept of the European Coal and Steel Community.

What is remarkable is the success of this project. It does appear that war within Europe, at least west of Russia, has become unthinkable. Within this context and an essential part of the process, the economic integration of Europe has proceeded by leaps and bounds. A common market with unlimited migration has emerged. Within the European Union, there are subgroups with a common currency and with unrestricted travel. Comparisons with the United States or other federal states are unavoidable; we too have unrestricted travel and migration and a common currency, and we too changed from a very limited central administration to a much stronger central authority. Much of American institutional evolution took place within less than a decade, but, of course, the common elements of culture and language were much stronger.

II. THE RECENT EVOLUTION OF EUROPE: The successful development of Europe had, of course, ups and downs, as the capitalist economy has shown everywhere and at all times from the early 19th century. European responses could only be mediated through a complex decision system which respected the sovereignty of individual states and therefore required unanimity rather than majority rule. Obviously, the possibilities of decisive action are greatly reduced. In addition, the scope of central authority was and is much less than even in a federal state like the United States or Canada.

These persistent problems were now faced with two additional complications. First, the fall of the Soviet Union led to the admission of many new states in Eastern Europe. These were

typically poorer and, in several other ways, different from the earlier membership in the European Union. This made the task of economic policy more difficult. Second, the whole advanced world has entered into a new era of poor macroeconomic performance and low productivity growth. The first illustration was the collapse of the Japanese economy in 1991 and, more unusual, the failure to recover. The failures of the United States and European economies in 2008 and the weakness of the subsequent recovery follow the Japanese pattern. These events are far more consequential and longer-lasting than the conventional business cycles. Further, we (at least, we economists) are accustomed to regard as different phenomena the cyclical fluctuations and the long-term growth of the economy. The latter we regard as driven by technological progress. Yet somehow we have now both a long-term depression, with continued unemployment, and a lack of increase in productivity. Some indeed have called this an era of “secular stagnation,” a term which I last heard when I was a graduate student toward the end of the Great Depression. Certainly, it is hard to think of any previous situation of persistent zero or negative interest rates.

The depressed nature of the economies of high-income countries is not a specifically European problem. But it, along with the eastward expansion of the European Union, has created new economic strains and therefore new burdens on the decision-making apparatus of Europe.

There are still two further sets of issues which have arisen or at least been recognized more sharply in recent years. They are again issues for all the high-income countries and, indeed, in some measure, for all countries. One is the recognition that the economic systems are producing greater inequalities in income and wealth. This came after a period following World War II when inequality was decreasing. There are several causes. One, among others, is the operation of the tax system, which, in many places, has shifted the burden more toward workers and toward those with lower incomes. The WWFOR for Europe project has put considerable weight on the inequality issue, emphasizing indeed the extent to which measures to improve equality also yield improvements in the efficiency with which resources are used. It has developed sound recommendations for changes in tax laws and for other measures in this direction.

The second new set of issues is addressed to the sustainability of the economy when one considers the limited resources with which we are supplied by nature. The most clearcut of these is the climate change induced by the carbon dioxide emissions which arise from the burning of fossil fuels. As it happens, I was a weather forecaster in World War II. We learned about the warming of the Earth from human combustion then, as a well-established fact. Seventy-three years later and with strikingly observable temperature increases, melting glaciers, and sea-level rises, we are only beginning to come to grips with the issue. On this point, Europe has been well ahead of the United States, though I can say proudly that my own state, California, has done very well.

Climate change is far from the only environmental issue. Local air pollution is an annoying and even deadly problem, though it is much more of a threat to life and health in China and India than in the United States or Europe.

III. KEEPING TABS: It is not my intention to discuss in any detail the thoughtful and well-supported policy recommendations of WWW for Europe. But I want to call special attention to their emphasis on a broader set of criteria by which policy recommendations are to be judged. The use of real gross national product simply leaves out too much of what makes us satisfied with life, what we value. As the project points out, not only the total of goods produced but how equally they are distributed counts. The ability of the economy to change and of individuals in the economy to grow and progress is a criterion not well caught in gross national product. The inclusion of the entire society, without gender or ethnic separation, is a test of a good society. Increasingly, the long-run environmental sustainability of our economy and the preservation of opportunities for future generations to flourish along the same lines have to be measured as part of the well-being of our current economy.

Just as national income statistics became, in the 1930s, a recognized need which could be met, so the broader concepts of well-being need to be brought to a state of reasonable accuracy. It will take thought and work, but the use for a proper evaluation of economic policy will make it very worthwhile.

I am glad to join in this conclusion of the WWW For Europe project and look forward to its beneficial influence on European policy.



In the face of the financial and economic crisis and long-term challenges from globalisation, demographic shifts, climate change, and new technologies, Europe needs to redefine its development strategy. The objective of WWWforEurope – Welfare, Wealth and Work for Europe is to strengthen the analytical foundation of this strategy. WWWforEurope is a four year research project within the 7th Framework Programme funded by the European Commission, coordinated by the Austrian Institute of Economic Research (WIFO) and brings together researchers from 34 scientific institutions in 12 European countries. For more information see www.foreurope.eu.