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## **Ronald H. Coase [Ideological Profiles of the Economics Laureates]**

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### **Abstract**

Ronald H. Coase is among the 71 individuals who were awarded the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel between 1969 and 2012. This ideological profile is part of the project called “The Ideological Migration of the Economics Laureates,” which fills the [September 2013 issue of \*Econ Journal Watch\*](#).

### **Keywords**

Classical liberalism, economists, Nobel Prize in economics, ideology, ideological migration, intellectual biography.

### **JEL classification**

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### **Link to this document**

[http://econjwatch.org/file\\_download/719/CoaseIPEL.pdf](http://econjwatch.org/file_download/719/CoaseIPEL.pdf)

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## Ronald H. Coase

by Daniel B. Klein

Ronald Coase (1910–2013) was born in a suburb of London. He attended the London School of Economics and earned a bachelor of commerce degree in 1932. He was a member of the staff at the LSE from 1935 to 1951, though working for the government during the war years. In 1951, after receiving a doctorate from the University of London, he relocated to the United States, first to the University of Buffalo, then in 1958 to the University of Virginia, with a year (1958–1959) at Stanford’s Center for the Advanced Study in Behavioral Sciences (where he was influenced by another visiting fellow, Thomas Kuhn; see Coase 1994, 26-29), then in 1964 to the University of Chicago Law School, where he took over as editor of the *Journal of Law and Economics*, a role he filled until 1982.

Coase was awarded the Nobel Prize in 1991 for his formulation of and subsequent research on transaction costs and property rights. The chief papers

cited by the Nobel committee for the award are “The Nature of the Firm” (Coase 1937) and “The Problem of Social Cost” (Coase 1960).

The story of the development of Coase’s ideological character is clear in the following respects: First, early on, prior to his coming under the influence of Arnold Plant at the LSE (this apparently at age 21), Coase was a “socialist,” as he repeatedly put it; second, in his late phase, he is very classical liberal.

Let us start with Coase’s late phase. Thomas Hazlett once interviewed Coase for *Reason* magazine, the interview appearing in January 1997. Excerpts from that interview show Coase’s approach to forming policy judgments and the pattern of his policy judgments:

**Reason:** Though you are now known as a leading free market economist, you started your intellectual career as a socialist. Why and when did your political views change?

**Coase:** They changed gradually. What was most important was the work I did on the economics of public utilities at the London School of Economics. I studied the results of municipal operation of utilities and the effects of nationalization, particularly in the post office. This led to grave doubts about nationalization. It didn’t produce the results people said it did. My views have always been driven by factual investigations. I’ve never started off—this is perhaps why I’m not a libertarian—with the idea that a human being has certain rights. I ask, “What are the rights which produce certain results?” I’m thinking in terms of production, the lives of people, standard of living, and so on. It has always been a factual business with me. I discovered that municipal operation didn’t work as well as people said it would, and nationalization did not either.

**Reason:** You said you’re not a libertarian. What do you consider your politics to be?

**Coase:** I really don’t know. I don’t reject any policy without considering what its results are. If someone says there’s going to be regulation, I don’t say that regulation will be bad. Let’s see. What we discover is that most regulation does produce, or has produced in recent times, a worse result. But I wouldn’t like to say that all regulation would have this effect because one can think of circumstances in which it doesn’t.

**Reason:** Can you give us an example of what you consider to be a good regulation and then an example of what you consider to be a not-so-good regulation?

**Coase:** This is a very interesting question because one can't give an answer to it. When I was editor of *The Journal of Law and Economics*, we published a whole series of studies of regulation and its effects. Almost all the studies—perhaps all the studies—suggested that the results of regulation had been bad, that the prices were higher, that the product was worse adapted to the needs of consumers, than it otherwise would have been. I was not willing to accept the view that all regulation was bound to produce these results. Therefore, what was my explanation for the results we had? I argued that the most probable explanation was that the government now operates on such a massive scale that it had reached the stage of what economists call negative marginal returns. Anything additional it does, it messes up. But that doesn't mean that if we reduce the size of government considerably, we wouldn't find then that there were some activities it did well. Until we reduce the size of government, we won't know what they are.

**Reason:** What's an example of bad regulation?

**Coase:** I can't remember one that's good. Regulation of transport, regulation of agriculture—agriculture is a, zoning is z. You know, you go from a to z, they are all bad. There were so many studies, and the result was quite universal: The effects were bad. (Coase 1997)

To my mind, Coase has a quality in a way that has been quite exceptional. The quality is acceptance of the idea that we make judgments about alternative institutional arrangements (or, alternative positions on a policy issue) without having a definite idea of how we arrive at or justify the judgment we make; an acceptance, that is, of making judgments about the important things in a way that will not necessarily, or perhaps not even typically, live up to a pretension of being scientific. Coase simply accepts such a way of carrying on, and was therefore candid and comfortable to build his work around the reality about the judgments that serious thinkers must make. Such acceptance and comfort is essential to the overarching teaching of his career, which is that in judging between two arrangements we must strive to mind all of what would come with each arrangement as actualized; we must take responsibility for all that comes with each option, even in the long run, even in consequences moral, cultural, and political. Because the consequences are so varied, extensive, complex, and uncertain, it is often, or usually, the case that any account is bound to be quite incomplete, vague, and uncertain; but, such is the situation.

In his famous paper “The Problem of Social Cost,” Coase reiterates that the overarching point is that we are responsible to “all the consequences” (1960, 18), all effects on value “in its widest sense” (*ibid.*, 41). The article concludes as follows:

“In devising and choosing between social arrangements we should have regard for the total effect. This, above all, is the change in approach which I am advocating” (ibid., 44).

The acceptance and comfort that I just described is expressed when Coase says, “it is, of course, desirable that the choice between different social arrangements for the solution of economic problems should be carried out in broader terms than [the value of production, as measured by the market] and that the total effect of these arrangements in all spheres of life should be taken into account. As Frank H. Knight has so often emphasized, problems of welfare economics must ultimately dissolve into a study of aesthetics and morals” (Coase 1960, 43).

To many, Coase made himself eccentric in insisting that his total-effect approach constitutes an approach to economics that was forsaken. Coase maintained that “most economists have a different way of looking at economic problems and do not share my conception of the nature of our subject” (1988, 1). Coase’s apparent eccentricity is in the eyes of the beholder: Does one behold economists systematically leaving important considerations out of their analysis? In Coase’s mature view, freer institutions generally muddle along, or self-correct, less unsatisfactorily than do less free institutions; his classical liberalism came perhaps chiefly from his understanding of the downside of government intervention and of governmental institutions playing an active role in social affairs. The quiet message of Coase’s writing is that most economists are neglecting the downside of government activism, and in that sense are failing to regard the total effect of an institutional arrangement.

The total-effect mode of reasoning goes back in Coase’s writing at least to 1946, when he published “The Marginal Cost Controversy.” The point of that paper is to say that those economists who favor the pricing of access (to a road or “public utility”) at “marginal cost” often fail to offer thoughts regarding institutions in which the ‘economic’ problem is embedded. Here is a sample of Coase illuminating important effects to which, in his view, other economists had given too little consideration:

Neither Hotelling nor Lerner nor Meade give, in my view, sufficient weight to the stimulus to correct forecasting, which comes from having a subsequent market test of whether consumers are willing to pay the total cost of the product. Nor do they recognize the importance of the aid which the results of this market test give in enabling more accurate forecasts to be made in the future. . . . Nowhere in Hotelling’s article does one find recognition of the fact that it will be more difficult to discover whether to build new railroads or new

industries if one does not know whether the creation of past railroads or industries was wise social policy. And it is certainly not absurd to take into account the fact that decisions are likely to be better made if afterwards there is some test of whether such decisions were wise social policy than if such an enquiry is never made. (Coase 1946, 175-176)

Coase goes on to illuminate other important parts of the total effect, including the distortions from making up for the cost of services by taxes imposed elsewhere in the system (1946, 178-179). Coase's proposal was to study institutional arrangements as actualized, and use such learning in discussing whether arrangement A would be better than arrangement B.

There is one feature of Coase's thought with which I am dissatisfied, and which might be said to detract from his classical liberalism.<sup>10</sup> When Coase uses such terms as "free trade," the "free market," "intervention," and so on (one can search Coase 1994 for these terms), he means what people normally mean by such terms. When Thomas Hazlett asked Coase about "regulation," Coase had no trouble entering into that manner of speaking—and, funny thing, Coase found all regulations examined to be bad. Yet Coase did not highlight and elaborate the focalness and naturalness of the conventions upon which such terms are predicated; rather, he helped to promulgate a description of property, as well as a narrowing of the idea of rights, that tends to obscure or even deny such focal, natural conventions. He helped to promulgate the "bundle of rights" description of property (see especially Coase 1959, 33-34; 1960, 43-44). Doing so accompanied Coase's undue agnosticism about ownership and incursions thereon. Doing so also weakened the very ideas, and associated presumptions, of liberty or individual freedom, since those ideas are the flipside of the natural conventions that Adam Smith called commutative justice, within which property is primary.<sup>11</sup>

Notwithstanding the "bundle of rights" matter, Coase, particularly from the 1970s on, writes in a way that makes his classical liberal character quite clear. He writes in an essay from 1974: "To ignore the government's poor performance of its present duties when deciding on whether it should or should not take on new duties is obviously wrong" (Coase 1974, 23). The concluding sentences of Coase's 1976 essay "Adam Smith's View of Man," though quoted often, bear quoting again:

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10. Richard Epstein (2011) disagrees with me about this.

11. Thomas Merrill and Henry Smith, in their paper "Making Coasean Property More Coasean" (2011), also say that Coase took a misstep with the bundle view. They argue that the misstep does not much upset his contributions, which, they say, are only strengthened by incorporating, instead, a traditional (exclusion or "in rem") view of property.

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Adam Smith would not have thought it sensible to treat man as a rational utility-maximiser. He thinks of man as he actually is—dominated, it is true, by self-love but not without some concern for others, able to reason but not necessarily in such a way as to reach the right conclusion, seeing the outcomes of his actions but through a veil of self-delusion. No doubt modern psychologists have added a great deal, some of it correct, to this eighteenth century view of human nature. But if one is willing to accept Adam Smith’s view of man as containing, if not the whole truth, at least a large part of it, realisation that his thought has a much broader foundation than is commonly assumed makes his argument for economic freedom more powerful and his conclusions more persuasive. (Coase 1976, 545-546)

Let us now turn back to Coase’s migration. In the *Reason* interview we saw Coase (1997) say that, to his migration, “What was most important was the work I did on the economics of public utilities at the London School of Economics.” That would be the late 1940s. In his autobiographical essay for the Nobel Prize, however, he seems to emphasize his early encounter with Plant, writing:

I attended [Plant’s] lectures on business administration but it was what he said in his seminar, which I started to attend only five months before the final examinations, that was to change my view of the working of the economic system, or perhaps more accurately was to give me one. What Plant did was to introduce me to Adam Smith’s “invisible hand”. He made me aware of how a competitive economic system could be coordinated by the pricing system. (Coase 1992)

Furthermore, in his response to our questionnaire, which is reproduced at the end of this profile, Coase indicates that at age 25 he was still half socialist, and he places great subsequent importance on the war years, saying, “The war experiences led me to see the inefficiency of big organizations, including the government, particularly their tendency to hide errors” (Coase 2013).

It seems reasonable to conclude that Coase’s socialist notions were shaken by Plant, and that Coase, throughout his thirties and forties, grew increasingly classical liberal. And even after 1950, Coase probably grew yet more firmly classical liberal, like many of the famed Chicago economists. For example, as with others in that set, Coase grew more classical liberal on the issue of antitrust, as well as probably regulation generally.

## IDEOLOGICAL PROFILES OF THE ECONOMICS LAUREATES

In a conversation of 1981, transcribed and published in 1983 as “The Fire of Truth” in the *Journal of Law and Economics*, Coase speaks of changes in his thinking after arriving at Chicago in 1964:

I think my views on both antitrust and regulation have changed, in part because I really didn't have very clear ideas on either of them before I came to Chicago. If people had asked me what did I think of antitrust laws, I would have said I favored them. After all, I favored competition and they produced competition. Regulation, I would have had the sort of woolly ideas that floated around at that time, I suppose. They weren't subjects that particularly interested me, but I would say that my views on those subjects have formed since coming to Chicago. (Coase, quoted in Kitch 1983, 213)

When Coase got to Chicago, he taught a class on antitrust. Ben Klein, a student, describes the course: “What [Coase] did was copy large sections of the case record in major antitrust cases, and we would go through the record and try to figure what was going on. Most of the time we reached the conclusion that we had no idea what was really going on in the business practices described” (B. Klein, quoted in Kitch 1983, 192). Coase then elaborates:

I remember giving that course. It so happened that I had never read an antitrust case before I came to the University of Chicago. I knew nothing about it. My recollection of that course is that it was what I call “hearty laughter” [laughter]. We'd read what these people were saying, and we couldn't make any sense of it at all [laughter]. It was just absurd what was going on. ... No one really understood these things, and it was that kind of lesson that I wanted to get over to economists... (Coase, quoted in Kitch 1983, 192-193).

Professor Coase's (2013) generous reply to our questionnaire follows; we are grateful to Ning Wang for assisting with the communication.

*1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.*

My family naturally held socialist views because of a family friend, who was the head of the largest labor union in Britain.

I was a socialist at age 18.

*2. How about at age 25 or so? Had they changed at all by then?*



I held inconsistent views at 25. I was a socialist who believed in the market. Arnold Plant exposed me to the working of the invisible hand.

*3. And how about age 35 or 40? Please describe any changes undergone since your early twenties.*

During the war time (1945), everyone was preoccupied with the war. No one really considered the larger questions.

*4. And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?*

My views have changed immensely. It's hard to say how. The war experience had certainly changed my views.

I remain optimistic about the political future. But the fact that it was our luck that we won the war worries me about the future.

*5. Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or character? Did your thinking "move" in a particular "direction" (using the notion of ideological space)?*

Yes, my views have changed dramatically. But it did not happen as a simple shift in direction from being a socialist to a believer in the market. What I saw and what I lived through in the war played a big part in shaping my views on the role of the government. I still have hopes, but not convictions.

*6. If your views did undergo changes, what caused the changes? Was it reading, thinking, experience of some kind, or the influence of particular people, including intellectual figures? All of the above? Something else? We will be very grateful if you try to explain why your views changed, to whatever extent they did.*

My teacher Arnold Plant and the war experiences greatly changed my views. Before Plant, I had no idea of how the free market would work. The war experiences led me to see the inefficiency of big organizations, including the government, particularly their tendency to hide errors. (Coase 2013)

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## Gerard Debreu

by Daniel B. Klein and Ryan Daza

Gerard Debreu (1921–2004) was born in Calais. He attended the *collège* there, where he was introduced to the “austere beauty of mathematics” (Debreu 1991, 3). During World War II, he continued his curriculum at Ambert and Grenoble in the Free Zone under the Vichy government, then left for Paris to enter the École Normale Supérieure in 1941. Outside of his schooling, Debreu did forced labor for the occupying German troops rebuilding streets and bridges (Düppe 2012, 418).

At the École, Debreu came under the influence of Henri Cartan, a founding member of the Bourbaki collective of mathematicians. Till Düppe describes the collective and Debreu's connection to it: “The most striking feature that Debreu must have experienced as liberating was the anonymity of mathematics that