

# SUBSCRIBE NOW AND RECEIVE *CRISIS AND LEVIATHAN*\* FREE!



"*The Independent Review* does not accept pronouncements of government officials nor the conventional wisdom at face value."

—**JOHN R. MACARTHUR**, Publisher, *Harper's*

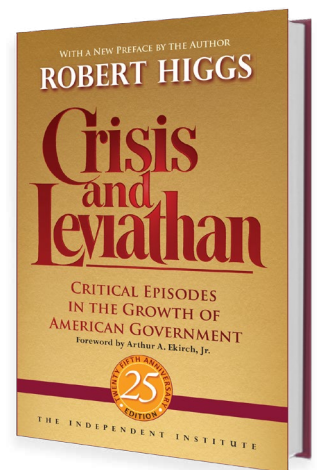
"*The Independent Review* is excellent."

—**GARY BECKER**, Noble Laureate in Economic Sciences

Subscribe to [\*The Independent Review\*](#) and receive a free book of your choice\* such as the 25th Anniversary Edition of *Crisis and Leviathan: Critical Episodes in the Growth of American Government*, by Founding Editor Robert Higgs. This quarterly journal, guided by co-editors Christopher J. Coyne, and Michael C. Munger, and Robert M. Whaples offers leading-edge insights on today's most critical issues in economics, healthcare, education, law, history, political science, philosophy, and sociology.

Thought-provoking and educational, [\*The Independent Review\*](#) is blazing the way toward informed debate!

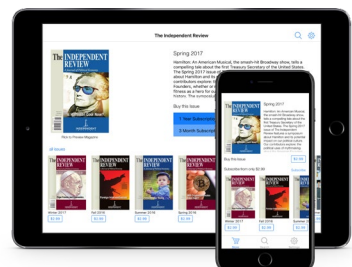
Student? Educator? Journalist? Business or civic leader? Engaged citizen? This journal is for YOU!



\*Order today for more **FREE** book options

**SUBSCRIBE**

Perfect for students or anyone on the go! *The Independent Review* is available on mobile devices or tablets: iOS devices, Amazon Kindle Fire, or Android through Magzter.



---

*Etceteras . . .*

## Ronald Coase, Anomalous Superstar of the Economics Profession

ROBERT HIGGS

Ronald Coase, one of the most important contributors to economics during the past century, died on September 2, 2013, at the age of 102. During his long career as an academic economist, Coase had a great impact on the mainstream economics profession. His work became a fundamental source for the creation of two new subfields of economic study known as “the new institutional economics” and “law and economics.” He gave a great boost to the incorporation of property rights and “transaction costs” into many types of economic analysis.<sup>1</sup>

Coase’s work also had a major effect by inspiring economists to challenge the “new welfare economics,” a body of analysis developed during the first half of the twentieth century that purports to show the vulnerability of market economies to various sorts of “market failure.” Following Coase’s lead, public-choice analysts and other economists undertook to turn allegations of market failure on their head and to show that in many cases the alleged problem springs more fundamentally from “government failure,” such as the failure to establish and enforce well-defined private-property rights in valuable resources.

At the University of Washington, where I taught from 1968 to 1983, Coase’s work inspired a great deal of important work by Douglass C. North and Robert Paul Thomas (1973), North alone (1981, 1990), Yoram Barzel (1989), Steven N. S. Cheung (1969, 1973), and others, including myself. Like the economists working along similar lines at the University of California at

---

**Robert Higgs** is founding editor and editor at large for *The Independent Review* and senior fellow in political economy at The Independent Institute.

1. For a more rounded and comprehensive appraisal of Coase’s career and accomplishments, see the excellent article by John V. C. Nye in the preceding issue of this journal (Nye 2014).

*The Independent Review*, v. 19, n. 2, Fall 2014, ISSN 1086-1653, Copyright © 2014, pp. 309-312.

Los Angeles as well as at Virginia, Rochester, and Chicago, we did not agonize over the correct interpretation of what George Stigler had dubbed “the Coase Theorem” or fret about the propriety of Coasian judges assigning property rights to promote efficient outcomes, but rather for the most part we took up the challenge of empirical research aimed at finding and analyzing overlooked market arrangements in cases where mainstream economists had alleged the prevalence of market failures. For example, Cheung (1973) revealed that bees do not always provide uncompensated pollination services and thereby generate a market failure, as neoclassical welfare economists had claimed, but instead that bee keepers enter into elaborate contracts with orchard owners to provide such services in exchange for substantial, well-specified fees. Cheung and I as well as my Washington Ph.D. student Lee Alston revived the analysis of sharecropping and other agricultural land-tenure arrangements to show that the market failures long alleged to attend such arrangements have generally not occurred and that landowners and tenants have instead entered into a great variety of contracts aimed at the establishment of incentives to allocate resources efficiently (Cheung 1969; Higgs 1973, 1974; Alston and Higgs 1982). Later on, many others pursued research along similar lines. My most recent work in this area shows how mine and mill operators in the important Coeur d’Alene (Idaho) mining district took a variety of innovative technological and contractual actions to internalize the externalities otherwise associated with the disposal of wastes generated in the mining, milling, and smelting of heavy metals (Higgs 2012). In such ways, Coase’s pioneering work continues to inspire research that reveals more clearly how real markets operate, in contrast to the markets that the new welfare economists condemn as failures on the strength of an analysis confined to drawings and equations inscribed on the blackboard.

Since Coase became an economist in the early 1930s, the economics profession has been altered enormously in fundamental ways. Most notably, perhaps, (1) the degree of analytical formality (especially the mathematical specification of theoretical models) has increased greatly in every area of the field; (2) Keynesian and other types of macrotheories have become central parts of economic theory; (3) econometric testing has become an integral part of the profession’s evaluation of its theoretical models; and (4) interest in and writing about economic history and the profession’s greatest contributors in previous eras have waned greatly.

Coase, however, stood completely apart from these developments. Of all the economists who have received the Nobel Prize in Economics, not one conducted his analysis less formally or wrote more accessibly. (Only the Nobelists James Buchanan, Douglass C. North, and Elinor Ostrom resemble Coase in the overwhelmingly nontechnical nature of their professional writing.) Coase always expressed his arguments verbally and made no important use of mathematical modeling or econometrics. He took a keen interest in the history of economic

analysis and in the careful observation of real-world markets and real-world court cases and government regulatory intervention.

Moreover, whereas the typical big-league academic economist cranks out several professional journal articles each year (and occasionally a book), Coase wrote very little. His eminence in the economics profession rests heavily on just two articles, “The Nature of the Firm” (1937) and “The Problem of Social Cost” (1960)—the first of which received little notice until many years after its initial publication. Yet he is widely acknowledged to have been one of the twentieth century’s most influential economists (see “The Prize in Economics 1991” 2014). He obviously believed that thinking carefully about critical issues was more important than frittering away his efforts in producing a stream of formal pyrotechnics with a very short half-life. As my old friend—and Coase’s sometime colleague at the University of Chicago—Max Hartwell liked to say, thinking is research, too (Higgs 2013). No one demonstrated this truth better than Ronald Coase.

It is unfortunate that so few academic economists have followed his example in this regard. But, then, if they had done so, they probably would not have received tenure at their universities.

## References

- Alston, Lee J., and Robert Higgs. 1982. Contractual Mix in Southern Agriculture since the Civil War: Facts, Hypotheses, and Tests. *Journal of Economic History* 42 (June): 327–53.
- Barzel, Yoram. 1989. *Economic Analysis of Property Rights*. Cambridge, U.K.: Cambridge University Press.
- Cheung, Steven N. S. 1969. *The Theory of Share Tenancy*. Chicago: University of Chicago Press.
- . 1973. The Fable of the Bees: An Economic Investigation. *Journal of Law and Economics* 16 (April): 11–33.
- Coase, Ronald. 1937. The Nature of the Firm. *Economica* 4: 386–405.
- . 1960. The Problem of Social Cost. *Journal of Law and Economics* 3: 1–44.
- Higgs, Robert. 1973. Race, Tenure, and Resource Allocation in Southern Agriculture, 1910. *Journal of Economic History* 33 (March): 149–69.
- . 1974. Patterns of Farm Rental in the Georgia Cotton Belt, 1880–1900. *Journal of Economic History* 34 (June): 468–82.
- . 2012. Coasian Contracts in the Coeur d’Alene Mining District. *The Independent Review* 17, no. 2 (Fall): 239–52.
- . 2013. Thinking Is Research, Too! *The Beacon*, October 8. Available at <http://blog.independent.org/2013/10/08/thinking-is-research-too/>.
- North, Douglass C. 1981. *Structure and Change in Economic History*. New York: Norton.

———. 1990. *Institutions, Institutional Change, and Economic Performance*. Cambridge, U.K.: Cambridge University Press.

North, Douglass C., and Robert Paul Thomas. 1973. *The Rise of the Western World: A New Economic History*. Cambridge, U.K.: Cambridge University Press.

Nye, John V. C. 2014. Ronald Coase: An Appreciation. *The Independent Review* 19, no. 1 (Summer): 1–8.

The Prize in Economics 1991. 2014. Press release, April 8. Available at [http://www.nobelprize.org/nobel\\_prizes/economic-sciences/laureates/1991/press.html](http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1991/press.html).