In keeping with the Law School’s long tradition of combining the studies of law and economics, a conference was held on December 4th and 5th to discuss the research of one of the most influential thinkers in the world of the social sciences—Ronald Coase, Clifton R. Musser Professor Emeritus of Economics at the Law School. An extraordinary group of scholars from all parts of the world gathered to celebrate Professor Coase’s 100th birthday and the 50th anniversary of the publication of his seminal paper “The Problem of Social Cost,” both upcoming in 2010. This was an ideal time to review the professor’s work and to see how it is influencing current thinking in the social sciences.

“Citations measure a scholar’s influence,” noted Law School Professor Emeritus William M. Landes and Sonia Lahr-Pastor, a researcher at the Law School, in “Measuring Coase’s Influence,” their presentation at the conference, “Markets, Firms and Property Rights: A Celebration of the Research of Ronald Coase.” “That Ronald Coase is among the most-influential and best-cited economists in the past fifty years is not debatable. Two of his articles—‘The Nature of the Firm,’ published in 1937, and ‘The Problem of Social Cost,’ published in 1960—are among the most-cited articles in both economics and law and continue to be widely cited.”

The conference was organized by eager Coase fans from three universities: Professor Richard Epstein of the Law School, Professor Thomas Hazlett of the George Mason University School of Law, and Professors Roger Noll and Greg Rosston of Stanford University. The conference brought together scholars from three continents, and presentations ranged from analyses of the continued importance of Coase’s 1959 paper “The Federal Communications Commission” in countries from New Zealand to China to Great Britain, to reviews of the continued influence of his most famous work.

Soon after the conference, Hazlett wrote in The Economist about why he felt it was the right time to have a conference on Coase and his work.
“It was precisely fifty years ago that Coase, a Brit-turned-American economist who had spent a decade studying the British Broadcasting Corporation and the Federal Communications Commission, wrote an essay that revolutionized the way policy makers think about radio waves and other natural resources … He saw the policy task as one of the defining efficient property rights, not as fixing a ‘market failure.’ Even economists thought he was wrong … [Today] competitive bidding is now a standard policy tool in more than 30 countries.”

The conference began on Friday with a videotape of Coase addressing the attendees on the topic and title of the conference. He also reviewed the ups and downs of his career in a modest, informative, and amusing way. Coase began with a discussion of his well-respected 1937 paper, “The Nature of the Firm,” which introduced the concept of transaction costs to explain the nature and limits of firms. The paper, which he said is “little more than an undergraduate essay,” is something he is not entirely happy with now, as he “referred to the firm as if it were an entity in economic theory.” After that he reviewed highlights from his career, including what he learned from the fact that the British government completely ignored the research he did for them during World War II because it was inconvenient. By studying concrete situations, Coase explained that he came to the conclusion that firms do not operate exclusively by contract, as one might think, but rather by relationships. He concluded his talk by saying, “We ought to study the interactions of firms in order to understand an economic system.”

Four panels were held on Friday, during which nine papers were presented. Hazlett, along with Professors David Porter and 2002 Nobel Laureate Vernon Smith, both of Chapman University, offered “Radio Spectrum and the Disruptive Clarity of Ronald Coase,” which examines the FCC paper. The writers conclude that while market allocation of radio spectrum has remained in the control of the U.S. government, consumers, innovators, and industry would all benefit from a liberalization of its extension. Consequently, these competing forces will determine whether Coase’s work will be able to drive spectrum property reforms to the furthest frontiers of efficiency.

Other papers presented that day included “Coase, Transaction Costs, and the Spread of the Rectangular Survey for Land Demarcation within the British Empire.”
The last panel on Saturday was moderated by incoming Dean Michael Schill and featured faculty superstars Geoffrey Stone, Judge Richard Posner, and Gary Becker. The panel engaged in lively debate about Keynesianism, commercial advertising, and the future of law and economics. Richard A. Posner, in his presentation on Keynes and Coase, began with the words, “I am sure that Ronald will not like my bracketing him with Keynes, as I am about to do. But if he is patient, he will hear me modify criticisms of his approach to economics that I made in an essay I wrote many years ago—sixteen to be exact—for the *Journal of Economic Perspectives*.”

Earlier in the day, papers and research were presented on an array of topics. Highlights of the day included “Coase and the Mental Picture of Property Rights” by Professor Thomas Merrill of Yale Law School; “Regulation and the Nature of the Firm: The Case of U.S. Regional Airlines,” by Michael E. Levine of New York University Law School; and “Competence as a Random Variable: One More Tribute to Ronald Coase” by Epstein.

Overall, the conference was an enormous success, not only from an academic point of view but from a personal one as well.

Ruoying Chen, LLM ’05 and Lecturer in Law, visits with Coase at lunch.

Conference attendees arrived from across the country to discuss Coase’s work.
Ronald Coase

The Coase Theorem states that the allocation of property rights does not matter for economic efficiency, so long as they are well defined and a free market exists for the exchange of rights between those who have them and those who do not. True, it seems simple, and yet it has influenced economic and legal thought and policy worldwide. This notion, which was fully explained in his 1959 paper “The Problem of Social Cost,” along with his 1937 paper “The Nature of the Firm,” brought Coase a Nobel Prize in Economics in 1991.

Ronald Coase was born in a suburb of London in 1910. He was later educated at the London School of Economics (LSE), and the school awarded him a Sir Ernest Cassel Traveling Scholarship, which he used in 1932 to study the structure of American industry. At the end of the academic year he returned to London, where he went on to teach at LSE until he went to work for the War Office during World War II.

In 1951, Coase and his wife immigrated to the United States, where he had secured a position at the University of Buffalo, and he moved to the University of Virginia in 1959. That same year he wrote his paper on the Federal Communications Commission, which was considered erroneous by a number of University of Chicago economists. He met with those economists and afterward was asked to write up his larger points in an article for the Journal of Law and Economics. This paper, “The Problem of Social Cost,” was an instant success and made Coase an internationally recognized economist.

Five years later, Coase moved to the University of Chicago Law School to become the editor of the Journal of Law and Economics and has remained here ever since. Editing the journal until 1982, Coase encouraged a wider range of economists and attorneys to contribute their thoughts, emphasizing work that analyzed how actual markets and government operated rather than pieces that dealt with the purely theoretical.

Although now approaching his second century, Coase is still active in the academic world. In the summer of 2008, he organized a conference on China’s Economic Transformation Program from the Chinese perspective, which was unique for its large contingent of speakers who are actually working and living in China. He is now working on organizing the summer 2010 Chicago Workshop on the Structure of Production.