

In memoriam. Ronald H. Coase (1910-2013)

By [Vincent Touzé](#)

The American economist Ronald Coase, who died at 102 on 2 September 2013, has left us an [exceptional body of work](#) distinguished by its simplicity and relevance.

As a pioneer of the theory of the firm, Ronald Coase believed that this type of structure had an undeniable capacity to reduce transaction costs and thus to efficiently organize economic activity outside the market ("The Nature of the firm", *Economica*, 1937). The firm's dilemma is: to do it (*i.e.* to produce directly) or to get it done (*i.e.* to use the market). In the absence of transaction costs on the markets, there would be no firms but only small autonomous production units. The transaction costs result from all the expenses associated with the purchase or sale of a product: remuneration of intermediaries, acquisition of information, search for the best price, etc. When these costs are too high, there is thus an opportunity to produce the good or service oneself. However, firms also face costs to get organized. Organizational theory was born.

As a supporter of free competition, Coase attributed market failures to the poor definition of property rights ("The Problem of social cost", 1960, *Journal of Law and Economics*, 3: 1-44). He was wary of costly regulations. He opposed Pigou (*The Economics of Welfare*, 1932, Macmillan), who recommended public intervention to deal with negative externalities. Instead, Coase called for better identification of property rights and for the role of the state to be limited to ensuring respect for these rights. This idea was synthesized as the "Coase Theorem" in 1966 by George Stigler in his book *The Theory of Price* (Macmillan). By focusing specifically on the

interactions between law (the definition of property, the grounds and consequences of court decisions, etc.) and economics, Coase became one of the founding fathers of a new discipline, the economic analysis of law.

In the 1990s, the Kyoto Protocol popularized the “Coase Theorem” by proposing the establishment of trading in emission rights to regulate the amount of greenhouse gas emissions, *i.e.* the well-known “right to pollute”. There were two different approaches to controlling the emission of greenhouse gases: the sale of pollution rights, or the Pigou tax. The first approach involves assigning rights to emit gases in limited quantities. To produce the gases, one must possess rights. These rights are traded on a market where the price of gas emissions is determined by the interaction of supply and demand. The second approach is to assign an ad hoc price (Pigovian tax) to the marginal social cost of the externality. This tax is paid by the companies emitting the gas. The principle of pollution rights is often seen as more demanding (and so more constraining on companies) because the price of the gas emission is endogenous and the total quantity limited. With a Pigovian tax, the reverse is true. The price is fixed (or not very endogenous in the case of progressive taxation) and the quantity potentially unlimited.

Coase, who was devoted to simplicity in making presentations, unhesitatingly denounced the use of excessive mathematical formalism. In a [profile published by the University of Chicago](#) in 2012, he lamented that economics had “become a theory and math-driven subject”. According to him, “the approach should be empirical. You study the system as it is, understand why it works the way it does, and consider what changes could be made in order to improve the system.” He modestly concluded: “I’ve never done anything that wasn’t obvious, and I didn’t know why other people didn’t do it. I’ve never thought the things I did were so extraordinary.”

Coase’s work won him the Nobel Prize in 1991.