

Ronald Coase, Nobelist Who Studied Corporations, Dies at 102

By Laurence Arnold for Bloomberg

Ronald Coase, the British-born University of Chicago economist whose Nobel Prize-winning work on the role of corporations stemmed from visits in the early 1930s to American companies including Ford Motor Co. and Union Carbide, has died. He was 102.

He died yesterday at St. Joseph Hospital in Chicago, according to a news release from the University of Chicago. No cause was given.

The Royal Swedish Academy of Science awarded Coase the 1991 Nobel in economics “for his discovery and clarification of the significance of transaction costs and property rights for the institutional structure and functioning of the economy.”

Unusual for an economist, Coase had concluded early in life that mathematics “was not to my taste.” So he built his career offering insights on the legal precepts and institutions, such as the corporation, on which the field is built. He was one of the first economists to treat the size and function of companies as a subject worthy of more than incidental attention.

Coase “is one of the most influential economists of his day,” Oliver Williamson and Sidney Winter wrote. “His seminal thinking has pushed economics to reconsider its primitives.” Williamson, a student of Coase, won the Nobel in economics in 2009.

Coase's 1937 article, "The Nature of the Firm," explained how the costs of economic transactions -- including time, fees, and what became known generally as overhead -- determine the size of the companies that arise to carry out the transactions.

New Ideas

The Nobel committee wrote that Coase "showed that traditional basic microeconomic theory was incomplete because it only included production and transport costs" and "neglected the costs of entering into and executing contracts and managing organizations." This new way of thinking had implications for corporate and contract law as well as for the structure of the financial system.

Coase further explored transaction costs in a 1960 paper, "The Problem of Social Cost," which examined how to address harm caused by business, such as pollution from a factory. Holding the company liable and ordering it to pay money to an affected property holder is less likely to yield an optimal result than having the parties negotiate, he wrote.

The paper spawned what became known as the Coase Theorem, which conservative legal activists cited to support free-market solutions rather than government regulation.

'Obvious Point'

"All it says is that the people will use resources in the way that produces the most value, that's all," Coase said. "I still think it's an obvious point. You wouldn't think there was a need for a Coase Theorem, really."

Ronald Harry Coase was born on Dec. 29, 1910, in Willesden, a suburb of London. His father was a telegraph operator in the post office, where his mother also worked until their marriage.

At 12, he won a scholarship to the Kilburn Grammar School and

earned distinction in history and chemistry on his college entrance exam four years later. He spent two more years at Kilburn beginning his university-level studies, choosing commerce as his major.

At the London School of Economics starting in 1929, he was influenced by the teachings of Arnold Plant, a commerce professor newly arrived from the University of Cape Town, South Africa.

“What Plant did was to introduce me to Adam Smith’s ‘invisible hand,’” Coase “He made me aware of how a competitive economic system could be coordinated by the pricing system.”

U.S. Visit

For his third year of studies -- “no doubt as a result of Plant’s influence,” Coase wrote -- the University of London awarded him a Sir Ernest Cassel Traveling Scholarship, and he spent the 1931-1932 school year in the U.S., studying the different structures of American industries. His visits to factories and businesses shaped his ideas on transaction costs and the role of firms.

He taught at the Dundee School of Economics and Commerce from 1932 to 1934, at the University of Liverpool from 1934 to 1935 and then at the London School of Economics. During World War II he worked for the U.K. Forestry Commission, then at the Central Statistical Office, part of the Offices of the War Cabinet. He returned to the London School of Economics in 1946.

Moving to the U.S. in 1951, he worked at the University of Buffalo before joining the University of Virginia in 1958.

Radio Frequencies

Building on research he had done in the U.K. on the British Broadcasting Corp., he studied the Federal Communications

Commission's allocation of the radio frequency spectrum. In a 1959 article, he advocated selling frequencies to the highest bidders -- a policy enacted in 1994 after decades of giving them away for free.

He joined the University of Chicago Law School as an economics professor in 1964 and served as editor of the *Journal of Law and Economics* until 1982. He became professor emeritus in 1981.

His final book, "How China Became Capitalist," co-written with a former student, Ning Wang, who now teaches at Arizona State University, was published last year, when Coase was 101.

New Journal

Also last year, he tried to start a new academic journal amplifying his belief that traditional economics had become too focused on statistical measures. "Economics as currently presented in textbooks and taught in the classroom does not have much to do with business management, and still less with entrepreneurship," he wrote in an essay for *Harvard Business Review*, which we have also provided.

In an article timed to Coase's 102nd birthday in December, Wang and Siri Terjesen, an assistant professor at Indiana University, said Coase remained an avid reader of science magazines and academic journals and was "still preoccupied with economic research."