

The principle of institutional direction: Coase's regulatory critique of intervention

David Campbell and Matthias Klaes*

That Coase's political convictions changed from an early socialism to a later neo-liberalism stands in apparent contrast to the theoretical consistency of his early ('The Nature of the Firm') and later ('The Problem of Social Cost') contributions to economics. Offering further evidence about his early views in particular, this paper takes a fresh look at Coase's views on competition and antitrust to show that he consistently stressed the role of what we shall call the principle of 'institutional direction', and that this principle involves an important criticism of both neo-liberal and socialist views on regulation and state intervention.

Key words: Ronald H. Coase, Comparative institutional analysis, Socialist economics, Critique of neo-liberalism, Critique of intervention, Institutional direction

JEL classifications: D23, L5, L14, K0

1. Introduction: problems in the interpretation of Coase's work

Ronald Coase formulated the argument of 'The Problem of Social Cost' (Coase, 1960) between 1958–60.¹ There can be no doubt about the nature of his political views at that time. 'The Problem of Social Cost' was written as a general statement of a then outlandishly radical applied argument he had made in an earlier paper on 'The

Manuscript received 31 May 2002; final version received 6 June 2003.

Address for correspondence: Matthias Klaes, Department of Economics, University of Stirling, Stirling, Scotland FK9 4LA; email: office@mklaes.net

* Department of Law, University of Durham, and Department of Economics, University of Stirling, respectively. Over the absurdly lengthy period of gestation of this paper, earlier versions have been given to the Faculty of Law, University of Tasmania, Australia, September 1996; to the Department of Economics, University of Sheffield, March 1998; to the School of Law, Macquarie University, Australia, March 1998; to the Critical Legal Studies Conference, University of Lancaster, September 1998; to the Annual Conference of the Socio-legal Studies Association, University of Loughborough, April 1999 and to the Erasmus Institute for Philosophy and Economics, Erasmus University Rotterdam, Netherlands, April 2000. We are grateful for comments given at these presentations, by two anonymous referees, and by Kevin Dowd and Sol Picciotto. Matthias Klaes would like to acknowledge discussions with Achille Puggioni in the summer of 1996 regarding the significance of the socialist convictions of the young Coase.

¹There is some debate about precisely when the paper was written (Coase, 1985, pp. 220–2; 1988A, pp. 10–11, 157–8; 1993, pp. 248–50; 1995, pp. 240–3; 1997), but no real issue turns on this, while it is important when precisely 'The Nature of the Firm' was written.

Federal Communications Commission' (Coase, 1959), that an auction of radio broadcasting wavelengths should be considered as an alternative to bureaucratic allocation of those wavelengths. This was an issue to which Coase, the main subject of whose work hitherto had been a criticism of the BBC monopoly (Coase, 1946A, 1947B, 1948, 1950A, 1950B, 1950C, 1951, 1954) and who at that time hoped to produce a general 'political economy of radio and television' (Coase, 1959, n. 1; 1960, n. 1; 1993, p. 248), had paid a great deal of attention. Coase also expressed this applied argument in a number of other academic papers (Coase, 1962, 1965, 1966, 1998B), in testimony to a Congressional Hearing, in an unpublished report for the Rand Corporation (Coase, 1998B, pp. 579–80), and in a popular article for *The Freeman*.¹ *The Freeman* proclaims itself to be a 'Monthly Journal of Ideas on Liberty' published by 'the Foundation for Economic Education, Inc, a non-political, non-profit, educational champion of private property, the free market, the profit and loss system and limited government', and is a journal which evidently enjoys the benefit of a clear editorial line. Coase (1961, p. 52) began the *Freeman* article by stating his 'strong conviction' 'that the principles under which the American economic system generally operates are sound'. By these principles, Coase meant the price system at work in a US economy that 'is, broadly speaking' (Coase, 1991B, p. 203) or 'in the main competitive' (Coase, 1988C, p. 54). In sum, it is evident that, around 1960, Coase, who had left Britain for the USA in 1951 in part because of 'a lack of faith in the future of socialist Britain' (Coase, 1995, p. 239), was an early, indeed path-breaking, example of what has since been called a neo-liberal.

'The Nature of the Firm', published in 1937, was substantially written between 1932–4 (Coase, 1988C, pp. 48–51; 1988D, p. 34; 1995, pp. 234–5). Guido Calabresi has claimed that, when writing that paper, Coase was a socialist. Coase has agreed with this. We shall provide further evidence that this was indeed the case. Of course, what Coase's political views are or were is his own business, but we believe that examination of those views casts valuable light on those other views of his that are of the greatest public importance, his views on the nature and significance of transaction cost or new institutional economics, and hence on the relationship of law and economics.

Coase's theoretical views typically have been taken to warrant a highly hostile attitude towards economic governance by the state, and a concomitant highly approving attitude towards market governance, particularly towards deregulation (Posner, 1975, pp. 759–60). Whatever the weaknesses of this 'Posnerian' interpretation (Campbell, 1996A), which Coase has himself said involves a 'highly inaccurate account of my views' (Coase, 1992, p. 96; cf., Posner, 1993A, 1993B, 1993C), it has had the strength of claiming a consistency between Coase's theoretical and his later political views. However, a few commentators have argued that the theoretical views set out in 'The Problem of Social Cost' and 'The Nature of the Firm' are of one piece (Calabresi, 1991, pp. 1211–15; Duxbury, 1997, p. 387; Klein, 1985, p. 202), and Coase himself has agreed with this (Coase, 1988B, p. 62; 1995, p. 248), most notably during his Lecture accepting the Nobel Prize (Coase, 1991A) awarded for *both* papers (Stone, 1992, pp. 2–3). Now, if these two papers are theoretically consistent, one

¹Coase also later used this argument to criticise the US Public Broadcasting Act 1967 (Coase and Barrett, 1968, pp. 1–27). We are grateful to a referee for drawing this to our attention.

would expect this to carry over to their conclusions for economic policy; but how could the policy conclusions of a paper written by a young socialist coincide with those found in the paper of a mature neo-liberal? Of course, nothing precludes socialists and neo-liberals coming to the same conclusions about particular questions of economic policy. However, these two papers are not detailed studies of particular policies but are—on the evidence of the award of the Nobel prize successful—conceptions of economic policy in general.¹ This poses an obvious problem for the interpretation of Coase's views: on the general, theoretical level at which Coase pitches these two papers, it seems unlikely that socialists and neo-liberals would be able to agree with each other.

We believe that close attention to the details of the regulatory argument in 'The Problem of Social Cost' largely resolves this problem. Coase's later political views, though certainly neo-liberal, can be seen as a perfectly reasonable development of his earlier, socialist ones in the light of the experience of socialist economic and legal policies in the period between the two papers. Coase's views changed as he grew disillusioned with the results of socialist interventions in the economy. However, his views about the absolute indispensability of detailed legal regulation of the economy, which we shall call 'institutional direction', remained consistent between the two papers.

By displaying this basic consistency over more than 70 years, Coase's views lose a great deal of the dogmatic certitude which the Posnerian interpretation claims for them, but as a result pose crucial questions for the formulation of economic and legal policy along both neo-liberal and socialistic lines. In essence, we shall argue that Coase both makes evident the necessity of state regulation of all economic activity (a criticism of 'mainstream' (Coase, 1998A, p. 72) economics) and argues for a profound scepticism about state intervention in that activity (a criticism of socialism). He thus draws a distinction between regulation and intervention which is, we believe, essential for the formulation of good economic and legal policy (Campbell and Picciotto, 1998; Klaes, 2003).

2. Coase's political views at the time of 'The Nature of the Firm'

In 1991, Calabresi claimed that Coase was a 'young socialist' when he wrote 'The Nature of the Firm', and that his political views at that time influenced the argument of that paper (Calabresi, 1991, pp. 1211–12). Coase has since agreed that '[a]s a young man I was a socialist' and that 'for all I know [Calabresi] may well be right' about the influence of those political views (Coase, 1996B, p. 106). We are sure that Calabresi is right, and the reason this is worth pursuing is that it allows us to appreciate hitherto neglected features of 'The Nature of the Firm'.

As is now well known, Coase begins 'The Nature of the Firm' with a description of 'the economic system as it is normally treated by the economist' due to Sir Arthur Salter, in which that system 'works itself' without 'central control' 'by a process that is automatic' (Salter, 1921, pp. 16–17; quoted in Coase, 1937A, p. 34). According to Coase, this description is highly unrealistic, as it neglects the crucial role of the

¹This policy dimension, further explored below, will be unfamiliar to readers who, following the conventional interpretation, have come to regard 'The Nature of the Firm' as being solely concerned with what forty years later had become known in modern microeconomics as the 'theory of the firm'.

'entrepreneur-coordinator' in the allocation of economic resources. Coase came to call 'dominant' (1988A, p. 1) or 'mainstream' microeconomics 'a view disdainful of what happens in the real world' (Coase, 1998A, p. 72) which 'has had the unfortunate effect of diverting attention from some very important features of the economic system' (Coase, 1995, p. 247). These neglected features principally are the forms of administrative allocation within and between firms which constitute an altogether different regime of coordination to market allocation (Coase, 1937A, pp. 35–6). Lest there remain any doubt about this, when, almost 60 years after the drafting of 'The Nature of the Firm', Coase summed up its meaning in his Nobel Lecture, he said that: most resources in a modern economic system are employed within firms, with how these resources are used dependent on administrative decisions and not directly on the operation of a market. (Coase, 1991A, pp. 5–6)

Though 'The Nature of the Firm' is widely acknowledged to have the merit of being a compelling criticism of the conventional treatment of the firm in economics, a further dimension of the paper is much less well recognised: its intervention in the contemporaneous debate about the role of planning in socialism. Coase placed such emphasis on the fact that '[m]ost production in a western economy is carried out in [the] planned society [of] the firm' (Coase, 1990, p. 12) because he was making a polemical point in this debate. 'The Nature of the Firm' explicitly seeks to refute some of Hayek's arguments in the planning debate, as we can see if we consider in detail the paper by Hayek which Coase (1937A, pp. 34–5) uses to good effect to set out his own, contrasting position.

'The Trend of Economic Thinking' (Hayek, 1933) was Hayek's inaugural lecture at the LSE. It is as rich as one would expect; but, like Coase, we are concerned only with Hayek's statement of his views on economic coordination. Hayek holds that economic coordination is due to an 'immensely complicated mechanism' which is 'not the product of deliberate planning' or design, but of 'spontaneous institutions' (Hayek, 1933, p. 129). Hayek draws no distinction between planning of any sort and socialism in general, for his theoretical and political aversion to planning is complete: 'most of the [western] planners do not yet realise that they are socialists' (Hayek, 1933, p. 135).

In his criticism of economists' usual view of the economic system as an automatic mechanism, which refers to Salter in the way we have mentioned, Coase also notes that for economists committed to this view, of whom he now cites Hayek (1933, p. 130) as an example, 'society becomes not an organisation but an organism'. Coase rejects 'this theory' that 'the economic system "works itself"' because it 'assumes that the direction of resources is dependent *directly* on the price mechanism' (1937A, p. 34, our emphasis). This assumption involves a 'very incomplete picture' of the economic system as it ignores the 'large sphere' of the modern economy ruled by a regime of coordination which is fundamentally different from the price mechanism, which Coase calls 'economic planning' or 'direction' (1937A, pp. 35–6, 54).¹ Both of these terms are taken directly from the planning debate (cf., Hayek, 1935, p. 202). In sum, Coase's view of planning in the economic system, and therefore of the economic system *tout court*, are in open opposition to Hayek's. Again citing Hayek (1933) as his example, Coase points to critics of central planning who object that it 'merely tries to

¹For a critical analysis of Coase's (1937A) notion of direction, see Hodgson (1998).

do what is already done by the price mechanism' (Coase 1937A, p. 35). His response is that:

Those who object to economic planning on the grounds that the problem is solved by price movements can be answered by pointing out that there is planning within our economic system which is quite different from . . . individual planning . . . and which is akin to what is normally called economic planning. (Coase, 1937A, p. 35)

We fear we have rather laboured to establish that the target of Coase's criticism of the conventional view of the economy in 'The Nature of the Firm' was not only Salter, then a prominent figurehead (if much less well known now), but Hayek, his colleague at the LSE, and that Coase's criticism of the latter was an explicit intervention in the planning debate. In the way he draws the neglected planning conducted within firms to the attention of his readers, Coase is claiming that an entrepreneur controls his firm on the basis of the same principles a socialist planner would have to adopt when centrally administering the economy. This riposte to Hayek was originally made by Evan F. M. Durbin (1936), another colleague of Coase at the LSE,¹ and Coase (1937A, p. 37) concludes:

[t]here is, therefore, point in Durbin's answer to those who emphasise the problem involved in economic planning that the same problems have to be solved by business men in the competitive system.

Given the intellectual atmosphere of the time, it should come as little surprise that Coase engages with the planning controversy in 'The Nature of the Firm'. As he later put it: '[w]hat was essentially the same puzzle [as in "The Nature of the Firm"] presented itself to me in another form which can be summed up in one word, Russia' (Coase, 1988D, p. 38; cf., 1981B). In 1929, the year in which Coase took up his studies at the LSE, the Soviet Union had embarked on its first 5-year plan. The goal was to realise the first important step towards a communist society by running the economy, as Lenin (1918, pp. 474, 443) put it: 'like a single factory' under 'complete planning'. Coase supplemented his economic studies of socialism with other investigations of the implications of developments in Russia at the time. During his visit to the US in 1931–2, he inspected the huge generators which General Electric produced for the Dnepr hydroelectric power plant, one of the central pillars of the 5-year plan. He also met the socialist presidential candidate, Norman Thomas (Coase, 1988D, pp. 38–9). His initial reaction to Lenin's aspiration was that it (and the existence of firms in the West) was hard to 'reconcile' with 'the views expressed by economists on the role of the pricing system' (Coase, 1991A, p. 7):

Lenin said that under communism the economic system would be run as one big factory. Some western economists were arguing that this could not be done. Yet there were factories in the western world and some of them were very large. Why couldn't the Russian economy be run as one big factory? (Coase, 1995, p. 233)

The correct interpretation of this passage is, we believe, that it concludes with a purely rhetorical question. Coase's point was not to argue for a regime of state planning to replace the market system. Rather, by using the analogy between the proposal to run

¹Durbin, together with Abba Lerner, were part of the socialist camp in the Department of Economics at the LSE, which, in the light of the presence of Hayek and Robbins as well, evidently was a home for both sides of the debate on socialist planning (Buchanan, 1973; Steele, 1992).

the state as a big factory and the evident success of large capitalist corporations, he sought to call into question Hayek's scepticism about the possibility of successful large scale planning *per se*. This distinguishes Coase's contribution from the predominant direction taken by the planning debate, towards the 'socialist calculation debate', which turned on the ability of the central planner to set accounting prices to replicate those obtained under free market competition (Steele, 1992). Coase's concern was with the importance of direction, understood in terms of hierarchical (but entrepreneurial) planning, as a mode of coordination necessary to *complement* systems of relative prices.

Our claim is that 'The Nature of the Firm' was intended to strengthen the socialist side in the planning debate, and this is in line with Coase's self-expressed socialist sympathies at the time, with his explicit rebuttal of Hayek, with his open reference to the planning debate, with the subsequent neglect of his paper by both Robbins and Hayek (Coase, 1988C, p. 51), and with the approving use in his paper of the writings of Maurice Dobb. We shall provide further corroboration of our claim below.

3. Coase on competition

To take our interpretation further, a few words on the notion of 'socialism' are required. The term socialism as it had become established at the beginning of the twentieth century in the UK tended to be associated with the nationalisation of the means of production, accompanied by central governmental planning (Hodgson, 1999, pp. 17–24). Coase did not explicitly engage with the question of private property until the late 1950s, and this engagement then reinforced his shift to a neo-liberal position. However, even in the 1930s, as we shall see, Coase's socialism eschewed general public ownership; but, of course, many forms of socialism and especially market socialism do this.¹ For the purposes of this paper, we define 'socialism' as 'the making of fundamental choices about allocations of goods by a consciously political process rather than by "the invisible hand" of the capitalist market' (Campbell, 1997B, p. 65). This definition is intended to embrace highly decentralised 'market' allocations, but on socially self-conscious terms of exchange. Accepting this, it seems then to be interpretatively helpful, indeed essential, to see Coase's argument in 'The Nature of the Firm' as socialistic, in the important sense that it turns on a clear rejection of the conception of the economy as a Hayekian 'organism' that 'works itself' as the basis of an empirically plausible description of the capitalist economy.

But the precise form of Coase's rebuttal of (Salter and) Hayek has a most important corollary. We have seen how the existence of a great volume of planning by firms poses problems for the Salter–Hayek view of the economic system. It also poses very serious problems for socialism. While 'The Nature of the Firm' drives home the point that economic planning is not only possible but necessary in the modern economy, the converse argument pertains in respect of market allocation (Boettke, 1998). For Coase

¹Including the views of those critics of the wave of nationalisations undertaken by the British Labour Party after World War II who held that the crucial ingredient of these initiatives was the abolition of the price system rather than public ownership as an end in itself (Lees, 1962, p. 111).

further argues that the optimum amount of planning in the economy cannot itself be centrally planned. Its determination must be left to the forces of competition.

In the centrally planned economy, there is no *principled* restraint on the volume of planning. (Such restraint as is observed is the lesson of sad experience of the refractoriness of an economy, society and population which refuse to be planned as a whole.¹) But when considering a competitive economy conceived as a whole along the lines of 'The Nature of the Firm', the 'outside network' of prices will determine not only individual firms' sizes but the global proportion of resources allocated by firms as opposed to allocated through markets. The argument that 'the limit to an optimum size of an undertaking is to be found in the increasing costs of coordination required for the management of larger units' (Robinson, 1934, p. 242) was the subject of considerable debate on 'the structure of competitive industry' (Robinson, 1931; quoted in Coase, 1937A, p. 47) in the literature following *Industry and Trade* (Marshall, 1919). Examining this literature closely, 'The Nature of the Firm' argues that 'diminishing returns to management' (Coase, 1937A, p. 44) are brought home to firms by competition in that firms that attempt to internalise transactions on an inefficient scale incur such management costs that they are driven out of business.

A given firm expands to the point where the marginal transaction is less costly to organise either across the market or within another company. In the latter case, the market is eliminated completely only if the firm is able to internalise all stages of production at a lower cost than other companies. Otherwise, the market transaction merely shifts to a different stage in the process of production of the final product. Firms are thus engaged in a continuous process of organising transactions between the various stages of production in the least costly way, a process which may be described as 'transactional arbitrage'.² This transactional arbitrage argument allows Coase to recognise the central role of intra-firm administration but still maintain that the basic system is competitive. The amount of intra-firm planning will be optimal if the boundaries of firm size are set by relative transaction costs; and the economy must be competitive so that this may (so far as possible) happen. Hence, the optimal amount of entrepreneurial planning cannot itself be planned but must be established by competitive pressures which impose a rational discipline on the system.

In a 1997 interview, Coase put the point bluntly by claiming that 'someone in a firm who buys things at \$10 and sells them for \$8 isn't going to last very long in that firm' (Coase, 1997; cf., 1998B, p. 577). One might scoff at the questionable profundity of seeing that 10 is greater than 8, and the pomposity in which one often sees this dressed up in managerial economics almost compels one to do so (cf., Ormerod, 2000). However, such competition would appear to have had nothing like a satisfactory equivalent in the empirical communist economies (Kornai, 1992, p. 124), nor does it seem to have had one in the nationalised sectors or in much of the industrial policy of the advanced capitalist economies. In the latter, much state intervention on 'social' rather than 'economic' grounds was indeed predicated on making investments on the basis of analogues to buying at 10 and selling at 8 because this was thought to be superior to the

¹The most instructive example remains Lenin's only grudging (e.g., 1923) acknowledgement of (some of) the reasons which made it necessary to introduce the New Economic Policy when, undoubtedly to his surprise, the attempt to quickly place the Russian economy on a thoroughly socialist footing within a short time ('War Communism') had disastrously failed.

²The global efficiency properties of this process have been questioned (Vromen, 1995, pp. 34–40).

market outcome; and looking at the results (Foreman-Peck and Hannah, 1999; Hannah, 1994), socialists cannot afford to scoff overmuch. One can see the limitations of what Coase says; one cannot see that attempts to improve on it have always been of much use, and in the most ambitious cases they have been disastrous.

In sum, Coase has, we believe, identified an essential role for both planning and competition, indicating the broad outlines of a workable economy incorporating both; an economy in which planning is valuable and inevitable but the volume of planning (and therefore of market allocation) is determined by competition:

The important difference between [the] two cases [of general planning and planning by firms within a competitive economy] is that economic planning is imposed on industry, while firms arise voluntarily because they represent a more efficient method of production. In a competitive system, there is an 'optimum' amount of planning! (Coase, 1937A, n. 14)

4. Assessing Coase's theoretical views on competition

A vindication of price theory is, then, in a most important sense the basis of Coase's theory of the firm. But in the way it gives a principled role for planning and competition, this is far more sophisticated than most attempts at such a vindication, and in particular it is a clear rebuttal of Hayek's criticism of the possibility of intermediate regimes between central planning and full decentralisation:

[N]obody has yet demonstrated how planning and competition can be rationally combined; and so long as this is not done one is certainly entitled to insist that these two alternatives are kept clearly separate, and that anybody who advocates socialism must decide for one or the other. (Hayek, 1935, p. 241)

It is precisely Coase's aim to show that this is not a question of 'one or the other'. He agrees about the undesirability of a centralised planning regime comprising the whole economy, but would point to the economic planning that occurs within firms as evidence for a large part of economic coordination which is not decentralised. The force of his argument rests, of course, on treating state planning and planning within firms as essentially of the same kind, rather than consigning firms and the state to different levels of analysis. In this view, the whole economy should form an intermediate regime, with competitive forces acting through the relative costs of internal organisation and transacting across markets determining the optimal amount of planning. It is thus certain that, as he wrote 'The Nature of the Firm', Coase was supporting views typically thought irreconcilable, in defending both planning and decentralised market exchange as complementary coordination mechanisms.

Coase has put down the first challenge to his socialist beliefs to his attendance at Arnold Plant's 1931 seminar on 'Industry and Trade' at the LSE (Coase, 1986, p. 179), which introduced him to basic price theory as it was current in the early neo-classical period: '[f]rom [Plant] I learned that producers maximise profits, that producers compete, and therefore that prices tend to equal costs and the composition of output to be that which consumers value most highly' (Coase, 1988D, p. 37). Coase has said that, as he 'was a socialist at the time . . . all this was news to me' (Coase, 1995, p. 231), but that he took to Plant's views with alacrity (Coase, 1985, p. 214).

However, it would seem certain that Coase continued to be a socialist for some while even after attending Plant's class, certainly during the period of the drafting of

'The Nature of the Firm', and he has indeed on other occasions said that this was so: 'I adopted many of Plant's positions but continued to regard myself as a socialist' (Coase, 1996B, p. 106). When making his criticism of Salter's description of the economy 'working itself', Coase (1937A, p. 34) notes that 'this description is quoted with approval by [D. H. Robertson and] Plant [(1932, p. 51)]'. Plant's teachings on the central coordinating role of the price mechanism did not succeed in fully dismantling Coase's socialism because they failed to account for the role of management in firms: 'Plant's point of view seemed to me to leave obscure the role of business management and of the employer-employee relationship. I did not dispute what Plant was saying. Indeed, it made a lot of sense. But it seemed somehow incomplete' (Coase, 1988D, p. 38). While Coase's solution of the firm size problem is a result of stressing competition of the kind to which Coase was introduced by Plant, it is not entirely an 'invisible hand' solution, for Coase's argument turns on its stress on what Chandler (1977) was to call the 'visible hand' within a competitive framework. Because it is based on an empirical claim about the nature of (the firm in) the capitalist economy, Coase's position is incompatible with an a priori commitment to the market.

In order to consider other evidence of Coase's politics at the time of writing 'The Nature of the Firm', some detail of works which have remained in the obscurity from which that paper has so markedly emerged (Coase, 1988A, pp. 61–2; 1988B, pp. 51–2; 1995, pp. 245–8) is unavoidable. 'The Nature of the Firm' was written against a background dominated by imperfect competition theory, with *The Theory of Monopolistic Competition* (Chamberlin, 1962) and *The Economics of Imperfect Competition* (Robinson, 1969) appearing in 1933. Coase was 'swept up' by the 'great stir' caused by these books (Coase, 1995, p. 235), and much of his paper is a dialogue with imperfect competition theory, as even a cursory inspection of its references will show. The cast of Coase's mind at the time he drafted 'The Nature of the Firm' is shown by his entering into correspondence with both Chamberlin and Robinson and by his first published paper (Coase, 1935) purporting to contribute to their work (Coase, 1981A, p. 22). Nor was this Coase's only work in this vein. Apart from lecturing on the theory of monopoly (Coase, 1988C, p. 51; 1995, p. 237), Coase published another explicit contribution to monopoly price theory in 1937 (Coase, 1937B), and allowed a further one written around this time (Coase, 1946C) to appear in 1946 after delays caused by the war (Coase, 1988C, p. 51).

In this context, one also should consider Coase's 1939 paper on the role of Rowland Hill in the setting up of a uniform, flat-rate pricing scheme in the British postal service. Coase's aim was to give an account of the 'economic doctrines' underlying Hill's reform proposals because '[t]hey afford an interesting example of the deductive method being applied to the pricing problems of a state enterprise and for this reason they should be of interest to academic socialists' (Coase, 1939, 424). In addition, during this period Coase also undertook empirical work on pig rearing with Ronald Fowler (Coase and Fowler, 1935A, 1935B, 1937). Their papers look at proposals to administer pricing in order to avoid cyclical fluctuations. They constitute an empirical study which does not pass an unfavourable verdict on administered pricing in principle, although their conclusion in this particular case was that intervention on the basis of the Cobweb Theorem was not likely to weed out undesirable fluctuations. The crucial point is that Coase and Fowler arrive at this conclusion on empirical grounds, drawing attention to the way farmers form their expectations in the real world as

opposed to the unrealistic assumptions on which the Cobweb Theorem was based (Coase and Fowler, 1940; cf., Coase 1988C, p. 50; 1995, pp. 235–6).

We shall say more below of the process by which Coase's socialism, as he puts it, 'fell away'. But one reason for this certainly would appear to have been his refusal to have any part of the comprehensive interventionist pricing policies then thought by some of his socialist colleagues at the LSE such as Lerner to be essential to market socialism (Coase, 1946B; cf., 1988A, p. 16; 1988D, p. 39). In papers published in the decade after 'The Nature of the Firm', Coase (1945, 1946B, 1947A) made a telling contribution to what became known as 'the marginal cost controversy'. Coase alleged that insuperable operational difficulties would prevent the planning technique of marginal cost pricing from being able to be implemented in a way which improved welfare. The principal such difficulty would be the government's inability to obtain correct estimates of demand for products subject to the technique once it had replaced market pricing. Coase argued that the ready belief that the technique might be implemented followed from its being merely what he calls 'blackboard economics', in which such estimates can be assumed (Coase, 1988A, pp. 19–20; 1995, p. 239). Coase did not dispute either the criticism of the operation of the price system which motivated marginal cost pricing (though he did dispute the redistributive consequences of intervention) or the theoretical defence of the technique on its assumptions (Coase, 1988A, pp. 16–7). Nevertheless, in the light of his practical criticisms, he was able to show that 'the net gain from such a policy is not evident' (Coase, 1988A, p. 18).

In this light, Coase's reflections on what now appears to be the rather naïve question '[w]hy couldn't the Russian economy be run as one big factory?', which concerned him while he was a socialist, is of interest in respect of two problems of socialist economics: the excesses in its prediction of centralisation under capitalism, and the shortcomings of its views on the post-capitalist organisation of labour.

The most profound line of socialist economics postulated a single cartel as the end point of centralisation in the capitalist economies (Engels in Marx, 1867, ch. 25, sec. 2; Hilferding, 1911, p. 234).¹ It did so *inter alia* because, though much of its critical character was based on a grasp of the social costs of alienated labour under capitalist factory management (Marx, 1867, pts 3–4), it had perhaps even less conception of the transaction costs of allocations by firms than mainstream economics, notwithstanding its unusually subtle appreciation of the costs of market exchange (Klaes, 2000, pp. 567–8). Returns to scale were therefore all taken to be positive (Hilferding, 1911, ch. 13).² When it came to arranging production in socialist firms, this failing led putative communists to disparage the design of rational incentives to labour and instead to turn to a moral exhortation (Kautsky, 1927, p. 437) which, when it inevitably failed, gave way to a discipline which simply must never

¹Single cartels also were postulated as the end point of centralisation in some contributions to the debate on 'the structure of competitive industry' on which Coase drew in 'The Nature of the Firm' (Florence, 1933, p. 117).

²Without attempting to marshal textual support, Vassilakis (1987, p. 762) argues that Coase 'rediscovered and generalised' Marx's observations on returns to scale as the basis of the argument for firms in 'The Nature of the Firm'. We do not believe the evidence allows one to conclude that Coase took these things from Marx; but, though we shall not argue it here, it certainly is possible to show that Coase drew on sources with which Marx had become familiar in the course of his research which led to *A Contribution to the Critique of Political Economy and Capital*.

be repeated; its mildest forms were more authoritarian than fordism (Bukharin and Preobrazhensky, 1919, pp. 285–8), and its harsher forms were amongst the most cruel things humanity has yet managed to devise (Solzhenitsyn, 1974, 1975, 1978). Even this discipline could not prevent widespread, acute labour problems to which no lasting solution could be devised. In ‘The Nature of the Firm’, the socialist Coase seems to have indicated the basis of a rather different approach to both of these serious problems of socialist economics. It is, however, a non-interventionist solution based on the maintenance of extra-firm competition as a framework for planning by firms.

5. Assessing Coase’s empirical views on competition

Even if we accept Coase’s theoretical argument for competition, as we do, this can serve as a neo-liberal defence of ‘the American economic system’ only if one also accepts that that system is broadly competitive, as we have seen Coase explicitly did in 1960, having held that position for some years. We have seen that ‘The Nature of the Firm’ was drafted in an intellectual climate dominated by imperfect competition theory, and it is of course a natural line of development of Chamberlin and Robinson, traceable to Sraffa, to maintain that key prices in the advanced capitalist economy are administered, though a development which Chamberlin later minimised or rejected (Chamberlin, 1950, p. 87) and which Robinson (1969, p. xii) fully acknowledged had failed to have the desired impact on the economic profession at large (despite authoritative predictions to the contrary; e.g., Hicks, 1946, p. 83).

Coase himself must have rejected this line in order to arrive at his later neo-liberal position. However, he has written nothing other than fragments in criticism of imperfect competition theory. He would appear not to have done so for a good reason, though one which seems almost absurd in contemporary academic life. What he would have said, had he written, had already been said by another, his friend the late George Stigler, an economist Coase admired greatly (Coase, 1991B; 1995, p. 240). In 1949, Stigler gave a series of lectures to the LSE, including one on ‘Monopolistic Competition in Retrospect’ which dismissed the work of Robinson and placed a low evaluation on the work of Chamberlin (and Triffin). Coase has said that his view of imperfect competition theory ‘is not essentially different from that expressed by Stigler in [this] lecture’ (Coase, 1981A, p. 23). Stigler’s principal point, made with reference to Chamberlin’s analysis, was that it had not been demonstrated to supply a superior appreciation of economic reality if compared with received price theory (Stigler, 1949, p. 320).

This scepticism towards theoretical developments which fail to increase our understanding of empirical economic phenomena is a hallmark of Coase’s thinking. His basic remedy for the fact that ‘[w]e are ... appallingly ignorant about the forces which determine the organisation of industry’ (Coase, 1972, p. 63) has been to advocate an approach based on gaining empirical knowledge of actual practices through case studies. The methodology implicit in all Coase’s substantive work is characterised by its insistence upon the necessity of knowledge of empirical circumstances as the basis of useful economic work. It is this insistently empirical methodological stance that we think is the basis of what is so valuable in Coase (Campbell, 1996A, pp. 496–505; Klaes, 2003). For this reason, he has welcomed the transaction cost analysis of the firm led by Williamson (1985, 1996), which seeks to

integrate a wide range of sources of empirical material into the economics of the firm (Coase, 1995, pp. 244–5; 1996A; cf., 1972, n. 8); and it is most fitting that Coase was appointed the first President of the International Society for the New Institutional Economics formed in 1997.

Whatever the achievements of ‘the new institutional economics’, however, those achievements cannot be traced back much beyond the publication of Williamson’s *Markets and Hierarchies* in 1975 (Williamson, 1975, ch. 1). But we recall that for a long time prior to this Coase had been of the firm belief that the American economy was competitive. What was his authority for this belief? Keeping to his empirical precepts, Coase’s conclusion that the advanced capitalist economies are essentially competitive surely should itself be based on an adequate knowledge of facts which would support this bold conclusion. But it is only in what we shall call a ‘negative’ (and we shall claim inadequate) sense that this is so.

Coase has himself produced no comprehensive study which provides a positive statement of his position. His own conclusion about the competitive nature of the capitalist economy would appear to be based, rather, on the ‘verisimilitude’ (Coase, 1974B, p. 211) created by a series of anecdotes, such as the following from his 1937 paper on ‘the problem Mrs Robinson calls the comparison of monopoly and competitive output’:

The objection may be made (and is by Mrs Robinson) that in practice perfect competition is never found; but competition sufficiently perfect for the results of our analysis to be applicable is probably not rare. Examples would be found in such industries as road transport, cotton spinning and weaving and coal-mining ... The assumption of perfect competition is indeed one which applies extremely well to raw material producing industries. (Coase, 1937B, p. 17, p. 17 n. 3)

The evidence Coase has for this would appear to be some reading and observations he made during his 1931–2 visit to the USA on a Cassell Travelling Scholarship, one of which he recollected in 1987:

I still remember one most instructive day I spent in the office of a purchasing agent, I think at Union Carbide, listening to his telephone conversations, a visit which gave me a lively sense of the possibilities of substitution. (Coase, 1988D, p. 39)

The eloquent charm with which Coase, as always, tells this and other tales can hardly prevent us from observing that his tales, while constituting a basis for hypotheses, cannot be regarded as sufficient evidence to support his position on competitiveness, and Pratten’s observation that Coase’s position ‘resembles something approximating an act of faith’ (Pratten, 2001, p. 629 n. 2) has real force.

This has the result that what Coase does occasionally say about the overall structure of the economy falls far short of his usual standard:

Like galaxies forming out of primordial matter, we can imagine the institutional structure of production coming into being under the influence of forces determining the interrelationships between the costs of transacting and the costs of organising. These relationships are extremely complex, involving ... pricing practices, contractual arrangements, and organisational forms. (Coase, 1988B, p. 73)

One fears what Coase himself would have said of any other economist who had put forward something like this; one is simply jarred by the contrast between this *Readers’*

Digest sort of talk of galaxies and primordial matter and the carefulness about institutional detail that one identifies with his substantive work. Coase's view of the basic structure of the capitalist economy is, in sum, very disappointing (Campbell, 1993, pp. 109–12; 1996A, pp. 505–7); but, of course, he can hardly be blamed for not resolving perhaps the principal issue in economics, indeed all social theory, and the precise criticism we wish to make is the following.

What is strange in Coase's claim for the competitiveness of the economy is not so much its ad hoc nature as the fact that it is him making this claim, which is so at odds with his normal demand for empirical evidence. Coase might, of course, have relied on 'a detailed study by some other economist' (Coase, 1974B, p. 211) to place his competitive view of the advanced capitalist economy on a solid basis, and it evidently is the later Stigler whom Coase thought furnished this authority. But when in 1972 Coase tried to indicate how the study of industrial organisation might properly be undertaken, he was able to point only to Stigler's (1951) 'The Division of Labour is Limited by the Extent of the Market' as 'the one paper' which fits the bill (Coase, 1972, p. 65).

Now, Stigler has put forward a great many criticisms of variants of monopoly theory, the stature of which is sufficiently conveyed by saying that they read very much like, and are as powerful and interesting as, Coase's criticisms of other forms of regulatory initiative and of the evidence put forward for them. 'The Division of Labour is Limited by the Extent of the Market' certainly is of this quality. But if in 1972 Coase was obliged to illustrate his argument by reference to a single paper more than 20 years old, he is hardly pointing to an overwhelming corpus of positive evidence for the competitiveness of 'the American economic system'. In any case, Stigler's work in this vein is, we should say, undermined by a serious logical flaw. His criticisms do identify weaknesses in monopoly theory, but it is obvious that Stigler and Coase think they do more than this. They think they falsify monopoly theory by establishing the competitiveness of the economy. This surely is to carry the argument too far (Clark, 1961, pp. 287–9). Stigler's criticisms might establish the positive existence of competitiveness if one accepts the implication that neo-classical economics, as opposed to monopolistic price theory, has been developed through a conscious attempt to expand economics' empirical explanatory power, and so has shown the superior empirical plausibility of competitive assumptions. There is no warrant for drawing this conclusion from anything Stigler has written. And Coase can hardly consistently be saying this, for, indeed, it has been his life's work of criticism of the blinkeredness of mainstream economics to say that this is not so.

By making this mistake, Coase would seem to have committed himself to the 'fundamentally inadmissible' belief which Sraffa described in 1921:

that when production is in the hands of a large number of concerns entirely independent of each other as regards control, the conclusions proper to competition may be applied even if the market in which the goods are exchanged is not absolutely perfect, for its imperfections are in general constituted by frictions which may simply retard or slightly modify the effects of the active forces of competition, but which the latter ultimately succeed in substantially overcoming. (Sraffa, 1921, p. 188)

Coase's argument for competition determining the optimal amount of planning must be weakened to the extent that forces of competition are overcome (Hurwicz, 1984, p. 24). But, of course, to what extent, as Sraffa had it, '[m]any of the obstacles which

break up the unity of the market which is the essential character of competition are not of the nature of “frictions” but are themselves active forces which produce permanent and even cumulative effects’ (Sraffa, 1921, p. 188), is an issue about which, we agree with Coase, ‘we are appallingly ignorant’. We believe that the argument that in the advanced capitalist economies the realm of administration does not remain within the firm but the large corporations significantly administer prices within the economy as a whole cannot be dismissed offhand, though, of course, it typically is in Chicagoan law and economics (Campbell, 1990, 1993, 1997A). Such a dismissal, though obviously a necessary condition of Coase’s later neo-liberalism, surely is open to debate and, the point we now wish to stress, it is so for Coasean reasons.

6. Coase’s views on antitrust

It is in this connection that we should like to say a little about Coase’s views on one crucial intervention, antitrust. Though this is not at all properly reflected in Coase’s published work, it seems certain that his most influential teaching at Chicago was on antitrust. Coase was the proper successor to Aaron Director in that he played a crucial part in forming the deeply sceptical attitude so characteristic of the ‘Chicago School’ of antitrust, which, one can briefly say, is to do away with it (e.g., Bork, 1993; Bowman, 1973; Posner, 1976). As Stigler (1972, p. 167) put it: ‘[a] few people believe that almost all regulation is bad, and by a singular coincidence a significant fraction of the academic part of this group resides within a radius of one mile of my university’. Coase has described what seems to have been the basic practice in antitrust teaching developed under Director (Duxbury, 1997, pp. 343–4), of ridiculing the content of antitrust judgments: ‘[m]y recollection [of the Chicago antitrust course] is that [w]e’d read [what was said in antitrust judgments] and we couldn’t make any sense of it at all. It was just absurd what was going on’ (Coase, 1985, p. 193). The tenor of Coase’s position emerges very strikingly from an amusing story told by William Landes (1985, p. 193):

Ronald said he had gotten tired of antitrust because when the prices went up the judges said it was monopoly, when the prices went down they said it was predatory pricing, and when they stayed the same, they said it was tacit collusion.

So far as one can tell from the little Coase has published on this and from the comments of his students on his teaching (and from what he has said of the study of industrial organisation), there are two aspects of Coase’s scepticism about antitrust which it is important to distinguish. The first is to hold that antitrust, or at least the present volume of effort put into it, is unnecessary because the monopoly problem is not sufficiently important. As Coase believes the US economy to be overall competitive, this would seem to be his position:

[F]or reasons which are not altogether clear to me, [the study of industrial organisation] has come to concentrate on ‘the monopoly problem’ ... By concentrating on the problem of monopoly in dealing with an economic system which is, broadly speaking, competitive, economists have had their attention misdirected and as a consequence they have left unexplained many of the salient features of our economic system. (Coase, 1991B, p. 203)

Coase manifestly remains unconvinced by many of the explanations of industrial structure which refer to monopolisation, which he feels are simply ways of masking ignorance.

We repeat what we have said above of Coase's general views of the structure of the advanced capitalist economies, that he has not made any sustained positive argument for his position. But Coase has elaborated upon a second aspect of his scepticism towards antitrust, which is that antitrust policies have been in many ways regrettable failures, and with this we do agree. And if antitrust has had very uncertain or negative welfare consequences, no amount of exposure of the welfare losses of monopoly could make antitrust a sensible policy. One can allow that there is a monopoly problem and still conclude that state intervention is inadvisable if the intervention would not improve the situation, or *a fortiori* make it worse. And, we shall argue, the truly Coasean point which must be allowed is that we have often been far too cavalier in assessing whether intervention would improve the situation. This is, in fact, the essence of Coase's criticism of Henry Simons (Coase, 1993, pp. 240–2), the first economist to join the Chicago Law School (in 1939), but whose pro-antitrust position was, of course, so radically reversed by Director (Duxbury, 1997, pp. 330–48).

However, it would appear that Coase has taken this second, negative argument to amount to a demonstration of the competitiveness of the advanced capitalist economy, for the negative argument about the weakness of antitrust has been run into a positive claim for competitiveness. The two aspects of Coase's views should be strictly distinguished. It certainly is Coase's opinion that interventionist antitrust as it has been pursued has been poor and ineffective. This argument may be compelling, but it is not an argument that the economy is governed by the invisible hand, and we shall now draw toward a conclusion by arguing that it is an argument that should lead in a quite opposed direction, and does so lead in Coase's own work.

7. Institutional direction in economic policy

It is a somewhat 'unfortunate' (Munger, 1990, p. 296) aspect of Coase's work to find him complaining, even on the occasions which should be celebrations of his achievement (Coase 1988A, p. 1; 1991A, p. 3), that what he believes to be the fundamentally simple truths he has enunciated have been egregiously misinterpreted. Of the misinterpretations, the claims that the Coase Theorem describes possible empirical situations and therefore can be a direct guide to policy (Ackerman, 1984, p. 65) are the most harmful, and Coase has explicitly disavowed these claims (Coase 1988A, p. 15). Since the work of Duxbury (1997, ch. 5), Ellickson (1989), Medema (1994, 1997) and Schlag (1986), the issue fortunately no longer is to show how little the Coase Theorem represents what is best in Coase (*pace* Usher, 1998). It is now much more interesting to focus on the way Coase (1964, p. 195) called for a concept of 'government failure' to balance the concept of 'market failure' which underpins Pigouvian welfare economics. The need for this balance is now universally conceded in all sophisticated regulatory theory, and it is also widely recognised to have been an aspect of the way Coase drew attention to the transaction costs of all governance structures, and called for an even-handed weighing of the costs of choosing between those structures (or inaction). What value there is in Coase's case study approach to analysing this choice is the subject of much debate (Klaes, 2003; Medema and Samuels, 1997; Pratten, 2001). We wish to argue only one point: that competition and planning have central places not only in Coase's earlier, but also in his later views.

As we have seen, 'The Nature of the Firm' is both a criticism and a defence of the market mechanism of competition. 'The Problem of Social Cost' complements the notion of direction in 'The Nature of the Firm' by drawing attention to another aspect of 'planning' which shatters the common understanding of it as one pole of a dualism of 'state' and 'market' (Campbell, 1999). The main proposition of 'The Problem of Social Cost' is that the distribution of property rights, and hence their definition, is of crucial importance in real world markets. Owing to the costs of using the market, different distributions of rights are associated with different levels of the overall value of production. Therefore, the legal framework has decisive economic importance.

From this emerges Coase's wide definition of 'economic regulation' as 'the establishment of the legal framework within which economic activity is carried out' (Coase, 1977, p. 5).¹ The mechanism design of a governance structure for the allocation of economic goods, even if that structure be a market, should be work of conscious, public arrangement based on law, though when the purpose of that arrangement is the allocation of economic goods, the arrangement typically should facilitate privately motivated action. The question can never be whether to regulate a market, for without the regulation it cannot exist.² And this, of course, brings us right back to Coase's political attitudes in 1958–60, and specifically to the relationship of 'The Problem of Social Cost' and 'The Federal Communications Commission'. The latter is an example of the problem of 'the legal delimitation of rights' central to 'The Problem of Social Cost' (Coase, 1960, p. 119). For when advocating the use of the price mechanism to allocate broadcasting frequencies, Coase was not advocating recourse to the invisible hand in the sense of letting a mysterious process work things out. He was advocating a concrete set of legal policies: 'the creation of ... rights in the use of ... frequencies' (Coase, 1959, pp. 25–6) backed by 'a government agency appointed to act as custodian of frequencies' (Coase, 1959, p. 21), which would be necessary to get the price system to work.

This concept of regulation as non-interventionist framework-setting (Campbell 1999, pp. 58–67) has far-reaching implications for economic policy. Even when market governance is identified as the transaction cost optimising mode of governance in a particular set of circumstances, the import of Coase's argument is that such governance, as with all other forms of governance, relies on planned decision-making at the collective level. The most important point, however, is that it allows us to conceive of this framework in a novel way. There is an essential 'negativity' about liberal attitudes to the state captured in the notion of *laissez faire*, which we follow Fine (1956, p. vii) and define as: 'the arguments of those who [accept] government as a necessity but [nevertheless wish] to see its functions reduced to the narrowest possible limits'. Of course, what was possible in the nineteenth century (e.g., Bastiat, 1850, pp. 65–6) and what is possible now differ, and, ignoring libertarian anarchism (e.g., Rothbard, 1970, 1982), the sophisticated non-libertarian modern liberalisms of,

¹There are, of course, other uses of 'regulation' in Coase's corpus, including some which are synonyms of intervention.

²This claim does not, of course, apply to pre-capitalist societies which may have markets or at least some forms of exchange but do not have a state. In capitalist economies, the extent to which the state is required to form a market is a contested issue. Though we shall not argue it here, we believe the state always has a role in markets in capitalist economies, and that what is often analysed as the 'non-use' of the law of contract is sophisticated negotiation 'in the shadow of the law' (Harris *et al.*, 2002, pp. 5–7, 31–8). For a sophisticated argument contra see Collins (1999, pp. 102–10).

for example, Hart (1994, ch. 9, sec. 2) ('minimum content of natural law'), Hayek (1960) ('spontaneous order' within a 'constitution of liberty'), and Nozick (1974) ('ultra-minimal state') find an indispensable role for the state. But this is a minimalist role characterised by an underlying *laissez faire* negativity which places state (regulation) and market (competition) in binary opposition, and when they are forced into coexistence, as of course they have to be in all practical policy-making, this is only by means of a grudging cessation of underlying hostilities (e.g., Hayek, 1933, p. 134).

The contrast with Hayek is, for our purposes, the most interesting. Hayek was strongly critical of the term '*laissez faire*' (Hayek, 1944, p. 27; 1973, p. 68), and at the heart of his work was an insistence on the necessity of a legal framework 'to preserve competition and to make it operate as beneficially as possible' (Hayek, 1944, p. 28). We are at pains to acknowledge this immense contribution, which in the depth of its background (political) philosophy is simply at a different level from that of Coase, who, of course, has had no intention of developing a comparable philosophy. But Hayek is resolute in decrying 'intervention' after the framework is set (Hayek, 1944, p. 60; 1973, pp. 128–9), and while his position expresses an essential insight, it cannot accommodate the pervasiveness of the government's role in setting and maintaining the framework.

Hayek's characteristic examples of framework setting are those rudimentary ones one identifies with *laissez faire* (Hayek, 1960, p. 230), which are quite inadequate to the complexity of the common law constitution of freedom of contract (Campbell, 1996B) (not to speak of the ubiquitous statutory input to business regulation (Braithwaite and Drahos, 2000, pt. 2)). And although, especially in his later work, Hayek (1973, pp. 46–8) perforce acknowledged that modern economies consist of individuals and organisations,¹ he had, we submit, no view of the principle by which spontaneous order and 'deliberate organisation' may be rationally combined;² the overwhelming tone of his work being to limit the latter in a way consistent with his denial that planning and competition can be combined that we have noted (Knight, 1967). But even within a competitive economy, the occasions of planning which would fall foul of Hayek's concept of intervention (Hayek, 1976, pp. 128–9) are simply too important to be relegated to the theoretical category of exceptions.

Coase, we believe, gives this combination an integrated place in his conception of the competitive economy. Coase supersedes the binary opposition of state and market by pointing to a fundamental conjunction between regulation and competition. According to 'The Nature of the Firm,' effective planning must rely on competition. 'The Problem of Social Cost,' on the other hand, reveals that competition itself is unthinkable without planned decision-making—logically prior to the market—about the initial specification and distribution of rights (and without state enforcement in support of market choices). The question, we repeat, is always how, and not whether, markets should be regulated. But it is not sufficient to set minimal rules and then let the market participants make, as it were, moves within these rules. Any attempt to

¹His lists of such organisations, e.g., '[t]he family, the farm, the plant, the firm, the corporation and the various [charitable] associations' (Hayek, 1976, p. 46), speak of a conception of tolerable or desirable, indeed inevitable, planning as individual forethought (Coase, 1937A, p. 34), rather than planning as hierarchical order which he deplored, even though obliged to acknowledge its occasional necessity.

²For an attempt to integrate Coase's views into the Hayekian framework, see Kirzner (1984, pp. 417–8).

specify or redefine the rules of the game constitutes itself a move in the game with direct allocative implications, and in advanced economies it is not simply the legislature which engages in these moves. To this one should add the constantly ongoing redefinition of the law by the judiciary, and, last but not least, administrative decision-makers at all levels of governmental bureaucracy. Therefore, economic policy cannot extricate itself from a continuing process of institutional direction which underlines any regime even of market governance. Whereas neo-liberalism would like to define economic policy within the primacy of *Ordnungspolitik* (defining rules but refraining from moves), Coase points us to the essential role of continuous institutional direction (Klaes, 2003).

This, one would say, emerges clearly from the discussion of Pigou in 'The Problem of Social Cost', except for the obvious fact that it has not emerged clearly at all. Many will be surprised to hear that at the beginning of this discussion Coase registers a fundamental agreement with Pigou. The argument for intervention in part 2 of *Economics of Welfare* is prefaced with a four-page introduction in which Pigou quotes Edwin Cannan to the following effect:

the working of self-interest is generally beneficent, not because of some natural coincidence between the self-interest of each and the good of all, but because human institutions are arranged so as to compel self-interest to work in directions in which it will be beneficent. (Pigou, 1932, pp. 128–9; quoting Cannan, 1913, p. 333)¹

'This part of Pigou's argument', Coase says, 'seems to me to be essentially correct' (Coase, 1960, p. 134). This is, of course, a most significant argument with which to agree, for it is a rejection of the conception of the economy 'working itself'; or, more precisely, of conceiving the invisible hand as merely this. Coase shows, then, that the continuing regulatory role of the state in directing economic activity is unavoidable; but, we shall see, his view of adequate regulation was formed against a background of growing awareness of government failure.

8. The reasons for Coase's shift from socialism to neo-liberalism

If our claim that there is a fundamental theoretical unity between Coase's views of the capitalist economy between 1937 and 1960 (and subsequently) may now be accepted, one has to explain why his socialist criticism of that economy at the earlier time was replaced by his neo-liberal affirmation of it at the later. In his writings, Coase has given us little explicit indication why he relinquished his socialist beliefs, typically saying only that 'my socialist views fell away fairly rapidly without any obvious stage of rejection' (Coase, 1988D, p. 39). Let us give one reason drawn from Coase's theoretical work for the change in his politics.

Coase's demonstration that economic policy analysis requires a concept of government failure as well as market failure has the strong implication that, conscious

¹In 'The Problem of Social Cost', Coase (1960, p. 134) emphasises that Pigou draws this argument from Cannan, with the implication that it is therefore a lot better than other things to be found in Pigou. Coase had, in general, a warm admiration for Cannan, not least because he believed him to have had a strong influence on Plant 'who retained in his teaching Cannan's interest in institutions and his commonsense approach' (Coase, 1981B, p. 213; cf., 1986, p. 177). From Cannan it is but a short distance to Smith and to the role of the legal system in the operation of the system of natural liberty. We shall not pursue this in this paper.

of our limited powers to bring about desirable states of affairs, we should have only limited ambition in what we attempt to achieve through economic intervention: '[u]ntil we realise that we are choosing between social arrangements which are all more or less failures, we shall not make much headway' (Coase, 1964, p. 195). It equally strongly implies that much such policy that has so far been implemented has been too ambitious and, if this is so, obviously the state is largely responsible.

During his time as the very active editor of *The Journal of Law and Economics* (Landes *et al*, 1983, p. iii), Coase promoted many empirical studies focused on the effects of government intervention in various industries (Coase, 1993, p. 252; 1995, 243; 1996B, pp. 107–9), and he has stated that he has saw no good empirical studies which showed that intervention increased welfare (Coase, 1988A, p. 26). The general conclusion Coase draws is that 'there is no reason to suppose that whatever good was accomplished was sufficient to offset the harm that the regulation brought with it' (Coase, 1977, p. 13). That these studies reached such an unvaryingly unfavourable conclusion is, of course, a puzzle (Coase, 1974A, p. 61; 1977, p. 6), and the solution Coase has hazarded is that 'the government is attempting to do too much ... it operates on such a gigantic scale that it has reached the stage at which, for many of its activities, as economists would say, the marginal product is negative' (Coase, 1974A, pp. 62–3; 1977, p. 7, 1996B, p. 108). Coase's wise comments on economic policy formulation give considerable support to the conclusion—widespread in neo-liberal thinking—that the state is 'overloaded' (Crozier *et al*, 1975, p. 8), though this conclusion certainly is open to debate (as Coase no doubt would allow). And, we shall argue, putting the relationship between Coase's shifting political views and his consistent theoretical views on a coherent footing allows us to see that he reached his later neo-liberal position not in a 'political' way but in a way to which socialists should pay great heed.

Simpson (2004, p.16) has explicitly levelled the charge against Coase that the 'first idea, which runs through all [his] writings, is a deep scepticism as to the desirability of government intervention'. With respect, this simply is not at all true of his earlier writings, and nor is it true of his later ones if by 'first idea' is meant a bias, as evidently Simpson does intend it to mean. This paper began by noting Coase's agreement that his early work was socialistic. Coase, in fact, registered this agreement precisely to rebut Simpson's allegation of right-wing bias (Coase, 1996B, p. 106). In the advanced capitalist countries which came to be dominated by the welfare economics of intervention, Coase's polemic was indeed directed at Pigou; but who would be a more worthy target (Coase, 1974A, pp. 60–1)? If Coase, or anyone, now is sceptical of direct state intervention, this is the conclusion a reasonable (former) socialist might come to in the light of the failures of socialism thus far.

Having, as we have noted, left Britain for the USA in part because of 'a lack of faith in the future of socialist Britain', Coase no doubt was anxious to stress the costs of intervention in his later works. The cast of Coase's mind just before he emigrated is very clearly conveyed by his memory of his wartime experiences in branches of the civil service (including one of the Offices of the War Cabinet):

I could not help noticing that, with the country in mortal danger and despite the leadership of Winston Churchill, government departments often seemed more concerned to defend their own interests than those of the country. (Coase, 1996B, p. 107)

In his book on the BBC, published in 1950, Coase used the BBC's refusal to broadcast Churchill's pre-war arguments against appeasement as a (very powerful) ground on which to reject the BBC's argument that its 'monopoly was required in order that there should be a unified programme policy':

This argument is powerful and on its assumptions it is no doubt logical. Its main disadvantage is that to accept its assumptions it is necessary first to adopt a totalitarian philosophy, or something verging on it. (Coase, 1950B, p. 191; cf., pp. 189, 166–7)

These are arguments against intervention based on experience and empirical research (Coase, 1996B, p. 108). Whatever one may think of the Posnerian interpretation of Coase, a 'right-wing' bias is not attributable to Coase himself, because his 'first idea' is not that markets *will* be superior to intervention, and indeed he says outright that it 'would be wrong' 'to argue that all regulation' 'would be inimical to the interests of the community as a whole' (Coase, 1977, p. 6). When using his argument for auction of broadcasting frequencies to criticise a proposal to publicly fund 'educational tv', he explicitly said: 'I do not have one solution which applies to all industries. It happens, however, that the market solution seems to me to apply very well to this particular one [broadcasting]' (Coase and Barrett, 1968, p. 190). The point that perhaps most tells against many critics of Coase is that, to the extent that it can be said to advance any concrete policy proposal, 'The Problem of Social Cost' itself concludes that direct state governance is 'particularly likely' to be the best way of handling smoke pollution (Coase, 1960, p. 118). In sum, there is nothing in the transaction cost argument derived from either 'The Nature of the Firm' or 'The Problem of Social Cost' that authorises a bias against state governance, unless asking that it be adopted only when it is the best form of governance is such a bias. What Coasean transaction cost analysis authorises is an empirically informed choice between alternatives, none of which will work perfectly. What, however, it has been taken as authority for is a predilection towards market solutions based on the Coase Theorem. This is a mistake which, though no doubt Coase is complicit in it (Campbell, 1996A, pp. 505–7), it is important to see runs counter to all that is best in what he has said.

Coase appears to have done most to break the former consensus in welfare economics by refuting the assumption that intervention will effect an improvement. It is in his development of this argument against interventionist blackboard economics that we find the strongest reasons for Coase's abandonment of his socialism. To assume that intervention will make things better is always wrong and often pernicious in much the way Coase claims. Socialists *must* take this onboard, and develop a similar scepticism towards intervention.

The overall significance of Coase emerges, however, only if that significance is assessed in terms of social welfare calculation *tout court*. For working with general competitive equilibrium assumptions also is a species of blackboard economics and, if we recognise this, Coase's criticism of welfare economics may clearly be seen to be of a piece with his earlier criticism of 'the economic system as it is normally treated by the economist'. Behind his polemic against Pigouvian welfare economics, Coase's overall position is that an unbiased weighing of alternative governance structures should now guide economic and legal policy. But the greatest recent source of blackboard proposals has been those deregulating initiatives which have so often produced

extremely poor outcomes in the social democratic countries, have caused such great trouble in the Asian economies, and have wrecked the economies of the former COMECON countries. Working with assumptions that a free market simply will obtain after deregulation is institutionally naïve blackboard economics, indeed, as Coase did not shirk from pointing out in his Nobel Lecture:

The value of including ... institutional factors in the corpus of mainstream economics is made clear by recent events in Eastern Europe. These ex-communist countries are advised to move to a market economy, and their leaders wish to do so, but without the appropriate institutions no market economy of any significance is possible. If we knew more about our own economy, we would be in a better position to advise them. (1991A, p. 6; cf., p. 12)

Liberalisation through deregulation on the basis of a naïve belief in the markets which can be produced by sketchy private property rights regimes has been the height of the misuse of the Coase Theorem as a more or less general claim that a market allocation is better than a state allocation. It is precisely Coase's contribution to have shown that there is no more mistaken way to proceed. Or rather, there is only one as mistaken, for this bias towards the market is just the opposite error to the one which Coase (1988A, p. 22), in setting up the concept of government failure, so powerfully attacked in Pigou, of 'assuming the existence of (almost) perfectly functioning public bodies'.

9. Conclusion: Coase and the changing evaluation of socialism

In the light of this review of Coase's criticism of intervention but stress on regulation and institutional direction, one can see how Coase's political views could change, and yet his theoretical views remain consistent, and what this now implies for 'intervention' and 'regulation' in economic and legal policy-making. Both 'The Nature of the Firm' and 'The Problem of Social Cost' point to the inevitability of crucial dimensions of 'planning' in all modern economic systems. Within the firm, this takes the form of direction (and within government there are different forms of hierarchy). Within markets, and within the overall market economy, this planning takes the form of ongoing processes of institutional direction. Our argument is, then, that even-handedness in the comparison of governance structures is the core of Coase's views on economic and legal policy formulation, but this even-handedness requires eschewing overall direction through a general plan. Instead, we must plan for competitiveness within markets and between governance structures.

Coase's essential even-handedness has been obscured by the stress he has placed on the failures of state intervention, but this stress has been for polemical reasons which the overall interventionist character of policy formulation in the advanced capitalist countries makes readily understandable. In a policy climate dominated by Pigouvian welfare economics, Coase attacked the most important target. General recourse to command and control planning is a failure, either in the form of state communism or as it has grounded public ownership and interventionist industrial policy in the social democracies. This is now almost universally acknowledged; and Coase is distinguished only by having reached this conclusion far in advance of most opinion (Coase, 1998B, pp. 578–80). But, of course, there is far to go, for liberalising deregulation based on institutionally insensitive privatisation is hardly an alternative

to command and control, and regulatory policy has floundered because it has lacked the sophistication to go beyond these alternatives to develop adequate forms of 'reregulation'. The critique of intervention in terms of government failure now is a commonplace in theoretical, if not actual policy-making, discourse. That regulation by institutional direction is nevertheless a necessity still has to be grasped, even in theory.

Bibliography

- Ackerman, B. 1984. *Reconstructing American Law*, Cambridge, MA, Harvard University Press
- Bastiat, F. 1995 [1850] The Law, p. 51 in *Selected Essays on Political Economy*, Irvington-on-Hudson, NY, Foundation for Economic Education
- Boettke, P. J. 1998. Coase, Communism and the 'Black Box' of Soviet-type Economies, p. 193 in Medema (ed.), 1998
- Bork, R. H. 1993. *The Antitrust Paradox*, rev. edn, New York, Free Press
- Bowman, L. S. 1973. *Patent and Antitrust Law*, Chicago, University of Chicago Press
- Braithwaite, J. and Drahos, P. (2000) *Global Business Regulation*, Cambridge, Cambridge University Press
- Buchanan, J. M. 1973. Introduction: LSE cost theory in retrospect, p. 1 in Buchanan, J. M. and Thirlby, G. F. (eds), *LSE Essays on Cost*, London, Weidenfeld & Nicolson/LSE
- Bukharin, N. and Preobrezhensky, E. 1919 [1966]. *The ABC of Communism*, Ann Arbor, MI, University of Michigan Press
- Calabresi, G. 1991. The pointlessness of Pareto: carrying Coase further, *Yale Law Journal*, vol. 100, 1211
- Campbell, D. 1990. Adam Smith, *Farrar on Company Law* and the economics of the corporation, *Anglo-American Law Review*, vol. 19, 185
- Campbell, D. 1993. Why regulate the modern corporation? The failure of market failure, p. 103 in McCahery, J. et al. (eds), *Corporate Accountability and Control*, Oxford, Clarendon Press
- Campbell, D. 1996A. On what is valuable in law and economics, *Otago Law Review*, vol. 8, 489
- Campbell, D. 1996B. The relational constitution of the discrete contract, p. 40 in Campbell, D. and Vincent-Jones, P. (eds), *Contract and Economic Organisation: Socio-legal Initiatives*, Aldershot, Dartmouth
- Campbell, D. 1997A. The role of monitoring and morality in company law: a criticism of the direction of present regulation, *Australian Journal of Corporate Law*, vol. 7, 343
- Campbell, D. 1997B. Towards a less irrelevant socialism: stakeholding as a "reform" of the capitalist economy, *Journal of Law and Society*, vol. 24, 65
- Campbell, D. 1999. The 'hybrid contract' and the merging of the public and private law of the allocation of economic goods, p. 45 in Campbell, D. and Lewis, N. D. (eds), *Promoting Participation: Law or Politics?* London, Cavendish Publishing
- Campbell, D. and Picciotto, S. 1998. Exploring the interaction between law and economics: the limits of formalism, *Legal Studies*, vol. 18, 249
- Cannan, E. 1913. Review of N. G. Pierson, *Principles of Economics*, *Economic Review*, vol. 23, 331
- Chamberlin, E. H. 1950. Product heterogeneity and public policy, *American Economic Review (Papers and Proceedings)*, vol. 40, 85
- Chamberlin, E. H. 1962. *The Theory of Monopolistic Competition*, Cambridge, MA, Harvard University Press
- Chandler, A. D. 1977. *The Visible Hand*, Cambridge, MA, Belknap Press
- Clark, J. M. 1961. *Competition as a Dynamic Process*, Washington, DC, Brookings Institution
- Coase, R. H. 1935. The problem of duopoly reconsidered, *Review of Economic Studies*, vol. 2, 137

- Coase, R. H. 1937A. The nature of the firm, p. 33 in Williamson, O. E. and Winter, S. G. (eds) 1991. *The Nature of the Firm*, Oxford, Oxford University Press
- Coase, R. H. 1937B. Some notes on monopoly price, *Review of Economic Studies*, vol. 5, 17
- Coase, R. H. 1939. Rowland Hill and the penny post, *Economica*, vol. 6, 423
- Coase, R. H. 1945. Price and output policy of state enterprise: a comment, *Economic Journal*, vol. 55, 112
- Coase, R. H. 1946A. BBC Enquiry?, *The Spectator*, no. 176
- Coase, R. H. 1946B. The marginal cost controversy, p. 75 in Coase, R. H. 1988. *The Firm, the Market and the Law*, Chicago, IL, University of Chicago Press
- Coase, R. H. 1946C. Monopoly pricing with interrelated costs and demands, *Economica*, vol. 13, 278
- Coase, R. H. 1947A. The marginal cost controversy: some further comments, *Economics*, vol. 14, 150
- Coase, R. H. 1947B. The origin of the monopoly of broadcasting in Great Britain, *Economica*, vol. 14, 189
- Coase, R. H. 1948. Wire broadcasting in Great Britain, *Economica*, vol. 15, 194
- Coase, R. H. 1950A. The BBC Monopoly, *Time and Tide*, 7 October
- Coase, R. H. 1950B. *British Broadcasting: A Study in Monopoly*, London, London School of Economics and Political Science/Longmans, Green
- Coase, R. H. 1950C. British television policy: questions of control and finance, *The Times*, 9 September
- Coase, R. H. 1951. Report on the BBC, *Time and Tide* (20 January)
- Coase, R. H. 1954. The development of the British television service, *Land Economics*, vol. 30, 207
- Coase, R. H. 1959. The Federal Communications Commission, *The Journal of Law and Economics*, vol. 2, 1
- Coase, R. H. 1960. The problem of social cost, p. 95 in Coase, R. H. 1988. *The Firm, the Market and the Law*, Chicago, IL, University of Chicago Press
- Coase, R. H. 1961. Why not use the price system in the broadcasting industry? *The Freeman*, vol. 11, no. 7 (July)
- Coase, R. H. 1962. The Interdepartment Radio Advisory Committee, *Journal of Law and Economics*, vol. 5, 17
- Coase, R. H. 1964. Discussion of RE Caves, 'Direct Regulation and Market Performance in the American Economy' and RC Cramton, 'The Effectiveness of Economic Regulation: A Legal View', *American Economic Review (Papers and Proceedings)*, vol. 54, 194
- Coase, R. H. 1965. Evaluation of public policy relating to radio and television broadcasting: social and economic issues, *Land Economics*, vol. 41, 161
- Coase, R. H. 1966. The economics of broadcasting and government policy, *American Economic Review (Papers and Proceedings)*, vol. 56, 440
- Coase, R. H. 1972. Industrial organisation: a proposal for research, p. 57 in Coase, R. H. 1988. *The Firm, the Market and the Law*, Chicago, IL, University of Chicago Press
- Coase, R. H. 1974A. Economists and public policy, p. 47 in Coase, R. H. 1994. *Essays on Economics and Economists*, Chicago, University of Chicago Press
- Coase, R. H. 1974B. The lighthouse in economics, p. 187 in Coase, R. H. 1988. *The Firm, the Market and the Law*, Chicago, IL, University of Chicago Press
- Coase, R. H. 1977. Advertising and Free Speech, *Journal of Legal Studies*, vol. 6, 1
- Coase, R. H. 1981A. How Should Economists Choose? p. 15 in Coase, R. H. 1994. *Essays on Economics and Economists*, Chicago, University of Chicago Press
- Coase, R. H. 1981B. Economics at the LSE in the 1930s: A Personal View, p. 208 in Coase, R. H. 1994. *Essays on Economics and Economists*, Chicago, University of Chicago Press
- Coase, R. H. 1983. Comments, in Kitch (ed.) 1983
- Coase, R. H. 1986. Arnold Plant, p. 176 in Coase, R. H. 1994. *Essays on Economics and Economists*, Chicago, University of Chicago Press
- Coase, R. H. 1988A. *The Firm, the Market and the Law*, Chicago, IL, University of Chicago Press

- Coase, R. H. 1988B. The nature of the firm: influence, p. 61 in Williamson, O. E. and Winter, S. G. (eds) 1991. *The Nature of the Firm*, Oxford, Oxford University Press
- Coase, R. H. 1988C. The nature of the firm: meaning, p. 48 in Williamson, O. E. and Winter, S. G. (eds) 1991. *The Nature of the Firm*, Oxford, Oxford University Press
- Coase, R. H. 1988D. The nature of the firm: origin, p. 34 in Williamson, O. E. and Winter, S. G. (eds) 1991. *The Nature of the Firm*, Oxford, Oxford University Press
- Coase, R. H. 1990. Accounting and the theory of the firm, *Journal of Accounting and Economics*, vol. 12, 3
- Coase, R. H. 1991A. The institutional structure of production, p. 3 in Coase, R. H. 1994. *Essays on Economics and Economists*, Chicago, University of Chicago Press
- Coase, R. H. 1991B. George J. Stigler, p. 199 in Coase, R. H. 1994. *Essays on Economics and Economists*, Chicago, University of Chicago Press
- Coase, R. H. 1992. Coase on Posner on Coase, *Journal of Institutional and Theoretical Economics*, vol. 149, 96
- Coase, R. H. 1993. Law and economics at Chicago, *Journal of Law and Economics*, vol. 36, 239
- Coase, R. H. 1995. Ronald H. Coase, p. 227 in Breit, W. and Spencer, R. W. (eds), *Lives of the Laureates*, 3rd edn, Cambridge, MA, MIT Press
- Coase, R. H. 1996A. Foreword, p. xiii in Buckley, P. and Michie, J. (eds), *Firms, Organisations and Contracts*, Oxford, Oxford University Press
- Coase, R. H. 1996B. Law and economics and AW Brian Simpson, *Journal of Legal Studies*, vol. 35, 103
- Coase, R. H. 1997. Looking for results, *Reason Magazine*, January <<http://www.reasonmag.com/9701/int.coase.html>>
- Coase, 1998A. The new institutional economics, *American Economic Review Papers and Proceedings*, vol. 88, 72
- Coase, R. H. 1998B. Comment on TW Hazlett, 'Assigning Property Rights to Radio Spectrum Users: Why Did FFC License Auctions Take 67 Years?' *Journal of Law and Economics*, vol. 41, 577
- Coase, R. H. and Barrett, E. W. 1968. *Educational TV: Who Should Pay?* Washington, DC, American Enterprise Institute for Public Policy Research
- Coase, R. H. and Fowler, R. F. 1935A. Bacon production and the pig-cycle in Great Britain, *Economica*, vol. 2, 142
- Coase, R. H. and Fowler, R. F. 1935B. The pig-cycle: a rejoinder, *Economica*, vol. 2, 423
- Coase, R. H. and Fowler, R. F. 1937. The pig-cycle in Great Britain: an explanation, *Economica*, vol. 4, 55
- Coase, R. H. and Fowler, R. F. 1940. The analysis of producers' expectations, *Economica*, vol. 7, 280
- Collins, H. 1999. *Regulating Contracts*, Oxford, Oxford University Press
- Crozier, M. et al. 1975. *The Crisis of Democracy*, New York, New York University Press
- Durbin, E. F. M. 1936. Economic calculus in a planned economy. *Economic Journal* vol. 46, 676
- Duxbury, N. 1997. *Patterns of American Jurisprudence*, rev. edn, Oxford, Oxford University Press
- Ellickson, R. C. 1989. The case for Coase and against 'Coaseanism', *Yale Law Journal*, vol. 99, 611
- Fine, S. 1956. *Laissez Faire and the General-Welfare State*, Ann Arbor, MI, Michigan University Press
- Florence, P. S. 1933. *The Logic of Industrial Organisation*, London, Kegan Paul, Trench & Trubner
- Foreman-Peck, J. and Hannah, L. 1999. 'Britain: From Economic Liberalism to Socialism—And Back?' p. 18 in Giovanni, F. and Foreman-Peck, J. (eds), *European Industrial Policy: The Twentieth Century Experience*, Oxford, Oxford University Press
- Hannah, L. 1994. The Economic Consequences of the State Ownership of Industry, 1945–90, p. 168 in Floud, R. and McCloskey, D. (eds), *The Economic History of Britain Since 1700*, 2nd edn, vol. 3, Cambridge, Cambridge University Press

- Harris, D. *et al.* 2002. *Remedies in Contract and Tort*, 2nd. edn, London, Butterworth
- Hart, H. L. A. 1961 [1994]. *The Concept of Law*, 2nd. edn, Oxford, Clarendon Press
- Hayek, F. A. 1933. The trend of economic thinking, *Economica*, vol. 13, 121
- Hayek, F. A. (ed.) 1935. *Collectivist Economic Planning*. London, Routledge
- Hayek, F. A. 1944 (1986). *The Road to Serfdom*, London, Ark Paperbacks
- Hayek, F. A. 1960. *The Constitution of Liberty*, Chicago, University of Chicago Press
- Hayek, F. A. 1973. *Law, Legislation and Liberty*, vol. 1, London, Routledge & Kegan Paul
- Hayek, F. A. 1976. *Law, Legislation and Liberty*, vol. 2, London, Routledge & Kegan Paul
- Hicks, J. 1946. *Value and Capital*, 2nd. edn, Oxford, Clarendon Press
- Hilferding, R. 1911 (1981). *Finance Capital*, London, Routledge & Kegan Paul
- Hodgson, G. M. 1998. The Coasean tangle: the nature of the firm and the problem of historical specificity, p. 23 in Medema (ed.) 1998
- Hodgson, G. M. 1999. *Economics and Utopia*, London, Routledge
- Hurwicz, L. 1984. Economic planning and the knowledge problem: a comment, *Cato Journal*, vol. 4, Fall, 419
- Kautsky, K. 1927 (1988). *The Materialist Conception of History*, New Haven, CT, Yale University Press
- Kirzner, I. M. 1984. Economic planning and the knowledge problem, *Cato Journal*, vol. 4, Fall, 407
- Kitch, E. W. (ed.) 1983. The fire of truth: a remembrance of law and economics at Chicago, 1932–1970, *Journal of Law and Economics*, vol. 26, 163
- Klaes, M. 2000. The birth of the concept of transaction costs: issues and controversies, *Industrial and Corporate Change*, vol. 9, 567
- Klaes, M. 2003. Coase's contribution to evolutionary economic policy, in Dopfer, K. (ed.), *Evolutionary Economic Policy*, Cheltenham, Elgar
- Klein, B. 1983. Comments, in Kitch (ed.) 1983
- Knight, F. A. 1967. *Laissez faire: pro and con*, *Journal of Political Economy*, vol. 75, 782
- Kornai, J. 1992. *The Socialist System*, Oxford, Clarendon Press
- Landes, W. M. 1983. Comments, in Kitch (ed.) 1983
- Landes, W. M. *et al.* 1983. On the Resignation of Ronald H. Coase, *Journal of Law and Economics*, vol. 26, iii
- Lenin, V. I. 1918. *The State and Revolution*, pp. 381 in Lenin, 1960ff. *Collected Works*, vol. 25, London, Lawrence & Wishart
- Lenin, V. I. 1923. *Better Fewer, But Better*, p. 487 in Lenin, 1960ff. *Collected Works*, vol. 33, London, Lawrence & Wishart
- Lees, D. S. 1962. The logic of the British National Health Service, *Journal of Law and Economics*, vol. 5, 111
- Marshall, A. 1919. *Industry and Trade*, London, Macmillan
- Marx, K. 1867 (1976). *Capital*, vol. 1. Harmondsworth, Penguin Books
- Medema, S. G. 1994. *Ronald H Coase*, London, Macmillan
- Medema, S. G. (ed.) 1998. *Coasean Economics, Law and Economics and the New Institutional Economics*, London, Kluwer
- Medema, S. G. and Samuels, W. 1997. Ronald Coase on economic policy analysis: framework and implications, p. 161 in Medema, S. G. (ed.), *Coasean Economics, Law and Economics and the New Institutional Economics*, London, Kluwer
- Munger, M. C. 1990. Review of R. H. Coase, *The Firm, the Market and the Law*, *Public Choice*, vol. 65, 295.
- Nozick, R. 1974. *Anarchy, State and Utopia*, New York, Basic Books
- Ormerod, P. 2000. The Death of Economics Revisited, Keynote address to the Association of Heterodox Economists, <<http://www.volta.co.uk/docs/doi.pdf>>
- Pigou, A. C. 1932. *The Economics of Welfare*, 4th edn, London, Macmillan
- Plant, A. 1932. Trends in business administration, *Economica*, vol. 12, 45
- Posner, R. A. 1975. The economic approach to law, *Texas Law Review*, vol. 53, 757
- Posner, R. A. 1976. *Antitrust Law*, Chicago, University of Chicago Press
- Posner, R. A. 1993A. The new institutional economics meets law and economics, *Journal of Institutional and Theoretical Economics*, vol. 149, 73

- Posner, R. A. 1993B. Nobel Laureate: Ronald Coase and methodology, *Journal of Economic Perspectives*, vol. 7, 195
- Posner, R. A. 1993C. Reply, *Journal of Institutional and Theoretical Economics*, vol. 149, 119
- Pratten, S. 2001. Coase on broadcasting, advertising and policy, *Cambridge Journal of Economics*, vol. 25, 617
- Robinson, E. A. G. 1931 [1958]. *The Structure of Competitive Industry*, Cambridge, Cambridge University Press
- Robinson, E. A. G. 1934. The problem of management and the size of Firms, *Economic Journal*, vol. 44, 242
- Robinson, J. 1969. *The Economics of Imperfect Competition*, 2nd edn, London, Macmillan
- Rothbard, M. N. 1970. *Power and Market*, Kansas City, KA, Sheed, Andrews & McMeel
- Rothbard, M. N. 1982. *The Ethics of Liberty*, Atlantic Highlands, NJ., Humanities Press
- Salter, J. A. 1921. *Allied Shipping Control*, Oxford: Clarendon Press
- Schlag, P. 1986. An Appreciative Comment on Coase's 'The Problem of Social Cost': A View from the Left, *Wisconsin Law Review* 919
- Simpson, A. W. B. 2004. The Story of *Sturges v. Bridgman*: The Resolution of Land Use Disputes Between Neighbours, p. 9 in Korngold, G. and Morriss, A. P. (eds), *Property Stories*, New York, Foundation Press
- Solzhenitsyn, A. 1974. *The Gulag Archipelago*, vol. 1, London, Collins
- Solzhenitsyn, A. 1975. *The Gulag Archipelago*, vol. 2, London, Collins
- Solzhenitsyn, A. 1978. *The Gulag Archipelago*, vol. 3, London, Collins
- Sraffa, P. 1921. The laws of returns under competitive conditions, p. 180 in Boulding, K. E. and Stigler, G. J. (eds) 1953. *Readings in Price Theory*, London, George Allen & Unwin
- Steele, D. R. 1992. *From Marx to Mises*, La Salle (USA), Open Court
- Stigler, G. J. 1949. Monopoly competition in retrospect, p. 309 in *The Organisation of Industry*, Homewood, IL, Richard D. Irwin
- Stigler, G. J. 1951. The division of labour is limited by the extent of the market, p. 129 in *The Organisation of Industry*, Homewood, IL, Richard D. Irwin
- Stigler, G. J. 1972. Regulation: the confusion of means and ends, p. 167 in *The Citizen and the State*, Chicago, University of Chicago Press
- Stone, G. R. 1992. Ronald's Nobel, *University of Chicago Law School Record*, no. 38, Spring, 2
- Usher, D. 1998. The Coase theorem is tautological, incoherent or wrong, *Economics Letters*, vol. 61, 3
- Vassilakis, S. 1987. Increasing returns to scale, in *The New Palgrave: A Dictionary of Economics*, Basingstoke, Palgrave Macmillan
- Vromen, J. 1995. *Economic Evolution*, London, Routledge.
- Williamson, O. E. 1975. *Markets and Hierarchies*, New York, The Free Press
- Williamson, O. E. 1985. *The Economic Institutions of Capitalism*, New York, Free Press
- Williamson, O. E. 1996. *The Mechanisms of Governance*, Oxford, Oxford University Press