

## [Rest in Peace Ronald Coase](#) [1]

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Ronald H Coase, the Chicago-based British Nobel economist, has died at the age of 102. I first met him in 1976 at the Mont Pelerin Society meeting in St Andrews, where he delivered a paper on '[Adam Smith's View Of Man](#)' [3]. But he was best known for his work on transaction costs and social costs.

Coase introduced the idea of transactions costs in 1937. Before then, most (mainstream) economists simply assumed that trade and commerce were costless. In fact, he noted, the costs of simply making the deal might be higher than the price of the good or service itself. People need to gather information about what they are buying and whether they can trust the supplier, they have to put time and effort into striking a bargain, they might have to draw up contracts and monitor the service they get.

This idea spills over into how we deal with social costs. The fact that transactions are not costless means it makes a big difference who is blamed for externalities. To take his example, a fence could prevent a rancher's cattle from destroying a farmer's crops. But how can they agree who should pay for it? If the farmer has to bear that cost, the farmer will build a fence to keep them out. If the rancher has to compensate the farmer, the rancher will build the fence.

This in turn had important consequences in terms of the public choice economics of James Buchanan and and Gordon Tullock and others. Welfare economists had looked at 'market failure' and concluded that government must intervene to correct it. But they assumed away the transaction costs of making political decisions. And when you look at those, the corruption, the rent-seeking, the interest group politics and all the rest, you find that the outcome might be even less desirable than what the market can do.

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