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Ronald Coase, a Pragmatic Voice for Government's Role

By ROBERT H. FRANK

THE Nobel Memorial Prize in Economic Science is not awarded posthumously. So I was relieved when my longtime intellectual hero, Ronald H. Coase, [won it](#) in 1991, just a few months before his 81st birthday.



Because he had been widely regarded as one of the world's most influential economists for several decades, I thought that the Nobel selection committee had acted recklessly in waiting so long to honor him. I needn't have worried. Mr. Coase, who [died this month](#) at 102, would have had many more opportunities.

Born and educated in England, he began adulthood as a socialist. But he spent most of his career at the [University of Chicago](#), where he was revered by its many free-market enthusiasts as the world's foremost authority on behavior with harmful side effects, or negative externalities, as economists call them. He became their champion because they thought his framework provided the most cogent arguments for limiting government's role in economic life.

That belief was profoundly mistaken. In time, I predict, Mr. Coase's framework will instead be seen as providing not only the best explanation for why governments regulate in the various ways they do, but also the best advice on how they might regulate more effectively.

With sparkling clarity, he described that framework in "[The Problem of Social Cost](#)," a 1960 work that remains one of the most frequently cited economics papers ever published. Before it appeared, economists had almost always discussed negative externalities in terms of perpetrators and victims. If your factory emits smoke that harms me, for example, you are the perpetrator and I am your victim.

But that description, Mr. Coase objected, obscures the fact that externalities are often reciprocal in nature. Your smoke may harm me, but that wasn't your intent. You were just trying to achieve your own goals as inexpensively as possible. If you're prevented from emitting smoke, that harms you.

Mr. Coase's revolutionary insight was that you and I have a shared interest in minimizing the total harm suffered.

He began by asking how events would unfold if there were no costs of negotiating or enforcing contracts, and no other roadblocks that could prevent us from discussing how to proceed. In his view, if we were rational and free from such constraints, we would always enact efficient solutions. If the cost to you of removing the smoke were less than the harm it inflicts on me, you'd remove it, even if the law didn't require you to do so, because it would be in my interest to pay you to remove it.

Alternatively, if it were less costly for me to escape the damage by moving upwind, I'd move — even if the law held you liable for smoke damage. Although I would have the right to stay put and be reimbursed for whatever injury I suffered, it would be cheaper for you just to pay me to move. The important point is that failure to adopt the most efficient solution would always miss an opportunity to make each of us better off.

Many conservatives interpreted this insight as obviating any need for government to regulate pollution and other negative externalities. Yet Mr. Coase believed that negotiating private agreements would often be impractical. Particularly in the case of environmental pollution, there could be no presumption that affected parties would respond efficiently.

Because very large numbers of people are typically affected by toxic emissions, they would find it hard even to meet directly with the emitters, much less hammer out details of complex contracts with them.

Mr. Coase understood that government's attempts to regulate economic activity could go awry. But he was no ideologue. With reference to antipollution laws, he saw "no reason why, on occasion, such government administrative regulation should not lead to an improvement in economic efficiency."

Mr. Coase's work cannot be read as a case for minimal government. On the contrary, his message was more purely pragmatic: Because we can't negotiate efficient private solutions most of the time, we must ask whether laws and other institutions can help steer us toward solutions we would have chosen if negotiation had been practical.

What should we do if I want to construct a building that would block your view? If negotiation had no cost, we might work things out on our own. If the value of your view exceeded my gain from having a taller building, you could compensate me for not building taller. Or if the values were reversed, my building taller would be the more highly valued outcome, and that's what would happen. If complex emotions and other practical difficulties didn't scuttle our conversation, the efficient result would occur regardless of

how the government defined property rights. But if we couldn't negotiate, we wouldn't get the better outcome unless property rights were designed to steer us toward it.

MR. COASE'S framework helps us understand patterns of regulation all around us. It's no accident, for example, that San Francisco — where blocking someone's view of the Golden Gate Bridge would have a high cost — would develop stricter zoning laws than a less scenic city.

Because population density has been rising, behaviors with harmful side effects have been growing steadily more important. Our continued prosperity, and possibly even the planet's survival, will require thinking clearly about how to mitigate the resulting damage. Mr. Coase has pointed the way forward.

Robert H. Frank is an economics professor at the Johnson Graduate School of Management at Cornell University.