



## GRADUATION 1995

### **Presentation speech for Professor Ronald Coase for the honorary degree of Doctor of Science of the University *honoris causa***

'It is a great privilege to welcome Professor Ronald Coase to Buckingham today. The Schools of Law and of Business comprise a rapidly developing part of the University of Buckingham and it seems entirely natural, therefore, that we should honour the work of Professor Coase. For the intellectual contributions which he has made, and for which he was awarded the Nobel Prize for Economic Science in 1991, concern areas of mutual interest to students of business and the law. He has taught economics at universities in Britain and, after 1951, in the United States, but he is a rarity among economists in finding a congenial home in a Law School - at the University of Chicago - in 1964. There he became a distinguished editor of *The Journal of Law and Economics* which has become one of the highest ranked economics journals in the world.

It was as a student of Sir Arnold Plant at the London School of Economics in the early 1930s that a young Ronald Coase first became interested in business structure. At that time no satisfactory explanation for differences in structure between business firms existed. He received a scholarship to travel to the United States to study this problem and there he formulated a general approach to the answer which was to have wide ranging influence. In essence, he argued, there are costs associated with transacting and the organisations that we observe are structured to economise on these transactions costs. Later, he was to extend the scope of this insight by proposing that the institutions of the law played an important part in determining transactions costs and hence the allocation of economic resources. Governments too, through their regulatory systems could influence the possibilities for trade by suppressing or creating property rights in resources and by limiting or facilitating their exchangeability.

Over a period of more than fifty years, therefore, Professor Coase has had a profound influence on the way economists think about business organisation, the legal framework and the role of government. His work forms a foundation for what is now sometimes called the New Institutional Economics; it led directly to the establishment of the sub-discipline of Legal Economics - an area of study regrettably more advanced in the United States of America than it is here; and it informs much of the current debate over government regulation in both the economic and social spheres.

Indeed we live in an age in which Coasian questions have become increasingly prominent in academic debate and important in policy formulation. When business gurus investigate what forces lead some enterprises to success and others to failure they will often have been influenced by Coasian reasoning without perhaps recognising their intellectual debt. When economists investigate the relative performance of economies such as Japan and Germany compared with the United States or Britain, they are now likely to pay attention to institutional and transactional considerations

rather than the merely technological ones which dominated discussion until fairly recently. When governments consider how the public utilities should be structured - whether they should be permitted to integrate vertically or whether electricity generator should be kept at arm's length from distributor, gas producer from transporter, train operator from track authority, - they are wrestling with the original Coasian dilemma of the appropriate scope of market contract against internal organisation.

Recognition of the importance of Professor Coase's work developed gradually over time. Among the other factors which mark him out as a special case is his distrust of 'blackboard economics' and his rejection of the more rarefied technical and purely mathematical approaches to the discipline. He writes with great clarity using basic economic concepts to make sense of his observations of the world. Unlike the work of many other economists, articles by Ronald Coase seem to become more enlightening the more they are read. Indeed, I have more than my own subjective judgement to call as evidence for this point. A recent study (in 1993) of the influence of economics on law in the United States by William Landes and Richard Posner which attempted to measure the rate at which articles depreciated in their influence over time was forced to conclude that "Coase's citations follow an atypical pattern. .. A human capital regression on Coase alone has the wrong signs - ..indicating that his work may be appreciating rather than depreciating.

We welcome Professor Coase here today to mark the award of an honorary degree and pay tribute to his great contributions to economics or, as some of my profession might prefer to express it, to his extraordinary ability to confound the econometricians with the wrong signs on the coefficients of his human capital regression equations. I can think of no-one better qualified to address us today on the state of economics."