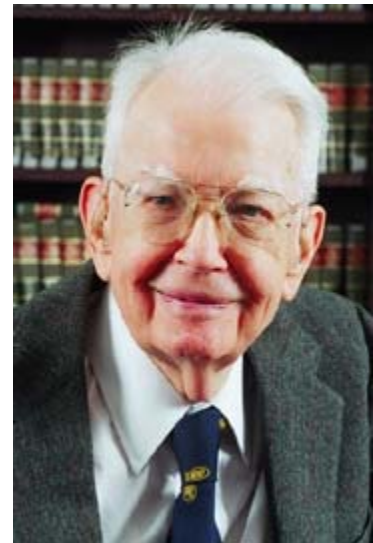


<http://reason.com/blog/2010/12/29/happy-100th-birthday-ronald-co>

Happy 100th Birthday, Ronald Coase, Nobel-winning Economist & Pathbreaking FCC Critic!

Nick Gillespie | December 29, 2010

Cato's David Boaz reminds us that today is the 100th birthday of Ronald Coase, winner of the 1991 Nobel prize for economics. He's best-known for the "Coase Theorem," whose origin lay in a 1959 study of how the Federal Communications Commission was screwing things up (the more things change...!). From the intro to a 1997 Reason interview with the man himself:



Coase, whose 1959 article on the Federal Communications Commission had led him to realize how property rights could be used to manage the airwaves, saw something different: The problem actually lay in an improper definition of legal rights. He noted that once property was well-defined and easily tradable, the efficient solution would follow. Ironically, the optimal social outcome would obtain no matter who owned the property. For instance, even if the railroad possessed the right to pollute, the farmer could pay it not to. Indeed, the farmer (really the farmer's customers) *would* pay whenever the benefit from mitigating pollution exceeded the cost created by pollution. Hence, whenever someone clearly possessed the right to pollute: Voila! Social efficiency! This became famously known as the Coase Theorem.

There you have it, ladies and germs, a full quarter of a century before Al "Grandpa" Lewis memorably uttered the phrase "Fuck the FCC" at a 1987 Howard Stern rally in New York, a serious economist coming up with a much more elegant and polite statement of how to get the government out of a business it needn't be in.



Some snippets from the interview, which was conducted by economist Thomas W. Hazlett, one of the best analysts on all things FCC-related, by the way:

Reason: You began teaching at the University of Virginia in the late 1950s, and by the early 1960s the administration there was not impressed with the work being done by yourself, Warren Nutter, James Buchanan, Gordon Tullock-- four of the most famous and influential economists in the post-war era, two of whom [Coase and Buchanan] went on to win Nobel prizes. Yet the University of Virginia was not happy with what was happening in their economics department.

Coase: They thought the work we were doing was disreputable. They thought of us as right-wing extremists. My wife was at a cocktail party and heard me described as someone to the right of the John Birch Society. There was a great antagonism in the '50s and '60s to anyone who saw any advantage in a market system or in a nonregulated or relatively economically free system....

Reason: What were you surprised by when you studied the Federal Communications Commission?

Coase: I don't know that surprise is the right word. I looked to see what happened, and I discovered that the FCC was extremely inefficient, that the choices it made could not easily be justified, that a lot of the activities in which it engaged [were] an absolute charade. I was a little doubtful about pure markets for the use of the radio frequency spectrum at first, because there are a lot of things that we can imagine for which we can't have markets because the transaction costs are too high. I thought that perhaps the transaction costs were too high in this case. But then I discovered from the early history of broadcasting that property rights were being established, and it struck me that left alone they could have solved the problem with [signal] interference, which was the main problem they talked about. The period of broadcasting chaos arose because people didn't have well-defined property rights. So I saw no difficulty in bringing about a market in this area.

Coase's work is distinguished by an interest in what actually happens (or happened) in the real world, as opposed to what should happen (or have happened) based on theories. That

interest helped create the Journal of Law and Economics (which spawned an entire interdisciplinary movement). But it also emphasized, well, you know, reality:

Reason: Isn't it shocking that economists didn't spend more time doing this kind of work before 1964?

Coase: Well, I'm not that easily shocked. Economics has been becoming more and more abstract, less and less related to what goes on in the real world. In fact, economists have devoted themselves to studying imaginary systems, and they don't distinguish between the imaginary system and the real world. That's what modern economics has been and continues to be. All the prestige goes to people who produce the most abstract results about an economic system that doesn't exist.

Though not a doctrinaire libertarian (read the interview!), Coase's interest in actual history led to the discovery of one of the great hobbyhorses of us beautiful, supposedly ascendant libtards: That lighthouses, often held up as the quintessential "public good" that could only be built and maintained by governments via taxes, had in fact been privately owned and operated in many cases:



Reason: What can you tell us about lighthouses?

Coase: Economists had always used this as a service that had to be provided by government. How could a private provider ever be paid for it? So without government operation you wouldn't get lighthouses. My usual practice is to look into what actually happens, and if you look into what actually happens you discover that there's a long period in which lighthouses were provided by private enterprise. They were financed by private people, they were built by private people, they were operated by the people who had the rights to the lighthouses, which they could bequeath to others and sell.

Some have said what happened in lighthouses wasn't really private enterprise. The government was involved in some way in setting the rights and so on. I think that's humbug because you could say that there's no private property in houses by that logic, since you can't transfer your rights to a house without the examination of title and registration and without obeying a whole series of regulations, many enforced by government.



So thank you, Ronald Coase. Wherever FCC jefe Julius Genachowski is there, telling us he'll only use a "light touch" on teh Internets, you'll be there to explain that the FCC isn't the solution, it's the problem.

Wherever a cop is explaining that you can't just kick people off the sidewalks because they can only be operated and maintained by the state, you'll be there with a convincing argument that the clear demarcation of property rights has historically provided the best possible outcomes for the greatest amount of people. And wherever

people are ragging on lawyers, you'll be there, too, with a stunningly persuasive rap about how most of what lawyers do is reduce transaction costs, thus leading to more economic specialization and increases in overall output.

[Whole interview here.](#)