The Enduring Power of Coase

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The Enduring Power of Coase

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Abstract

By many measures, Ronald Coase has been among the most influential economists of the past 60 years. Why is this so? We suggest that Coase’s work has enduring appeal to and insight for social scientists in part because it addresses the biggest and most important social problems: How do we solve governance and coordination problems when limited information, common resource issues, and public good issues produce conflicts among several people at once? Any scholar who works on issues of corporate or common-pool governance, pollution, allocation of seats on legislative committees, regulation of systemic risk in financial markets, provision of military forces, patent thickets, creation of optimal communications networks, regulation of decreasing cost industries, or compensation of corporate officers can see his or her work stemming from several of Coase’s original insights. Just as John Nash’s work reshaped economic theory, almost every field of economics and political science is shaped by Coasean insights.

1. Coase and the 2009 Nobel Laureates

The 2009 Nobel Prize in Economics, awarded to Elinor Ostrom and Oliver E. Williamson, could be seen as having been given to the next generation of Coasean thinkers. Both Ostrom and Williamson demonstrate forcefully the enduring importance of Ronald Coase’s seminal ideas about voluntary governance. While Ostrom views her work as stemming from Mancur Olson’s (1965) book, The Logic of Collective Action, and Williamson sees his work as more rooted in Coase’s (1937) “The Nature of the Firm,” the Nobel committee cites their work as

The authors acknowledge the advice and encouragement of John Ledyard, who encouraged us to pursue this topic, of Mike Levine and Roger Noll, who introduced us to governance issues in graduate school, and of Elinor Ostrom, who was a mentor to Elizabeth Hoffman. Elinor Ostrom passed away recently and will be sorely missed.

Aside from Coase, probably only John Nash, Kenneth Arrow, Herbert Simon, and Paul Samuelson may be credited with inspiring next-generation winners. Most of Nash’s intellectual descendants won their Nobel Prizes before he did, for reasons independent of the brilliance of Nash’s insights.
contributing to the literature on solutions to the governance problems originally examined by Coase.

We suggest that Coase’s work has enduring appeal to, and insight for, social scientists in part because it addresses the most important social problem of all: solving governance and coordination problems when limited information, common resource issues, and public good issues produce conflicts among several people at once. Social science research for the past half century has focused on examining various aspects of this central issue in particular settings. Any scholar who works on issues of corporate or common-pool governance, pollution, allocation of seats on legislative committees, regulation of systemic risk in financial markets, provision of military forces, patent thickets, creation of optimal communications networks, regulation of decreasing cost industries, or compensation of corporate officers can see his or her work stemming from several of Coase’s original insights. The flowering of the theory and application of mechanism design (see, for example, Cornes and Sandler 1996; Myerson 2008) and the new institutional economics (see, for example, Furubotn and Richter 2008) represent responses to these issues. Just as John Nash’s work reshaped economic theory and the understanding of rational decision making (see, for example, Myerson 1999), almost every field of economics and political science is shaped by Coasean insights.

In “The Problem of Social Cost” (1960) and in “The Nature of the Firm” (1937) Coase addressed the governance problem directly. While the transaction cost, contract theory, and tort law implications of what has become known as the Coase Theorem has transformed much of the law and economics literature (see, for example, Calabresi and Melamed 1972; Easterbrook 1981; Becker 1991; Easterbrook and Fischel 1991; Ellickson 1991; Epstein 1995; Fischel 1996; Lemley 2000; Demsetz 2002; Acemoglu and Johnson 2005; Beckmann and Wesseler 2005; Fehr, Kremhelmer, and Schmidt 2008; Stevenson and Wolters 2006; Dari-Mattiacci 2009; Dines and Lueck 2009), the fundamental problems Coase employed to illustrate his basic points are governance problems. This emphasis on governance has also led to a large literature that has come to be known as the new institutional economics. While Ostrom and Williamson are now the most famous representatives of this literature, this branch of Coase’s legacy is at least as large as the literature in law and economics (see, for example, Davis and North 1971; North 1989, 1991, 2005; Jefferson 1998; Buchanan and Yoon 2008; Case 2008; Furubotn and Richter 2008; Hart 2008; Hazlett 2008; Hedlund 2008; Jansson 2008; Voigt 2008; Yale 2008; Libecap 2009).

To understand the fundamental nature of the governance problem, one need only start with Coase’s simple examples in “The Problem of Social Cost” (1960, pp. 2–8). The conversations between the famous farmer and rancher are an attempt to solve the problems of whether to fence or insure against damaged crops and who will pay for either option. The dilemma stems from trying to order behavior to a common-pool resource—the farmer’s land that borders the rancher’s ranch—that can profitably be used by both, either to grow crops or
to raise cattle. The farmer and rancher are trying to solve the problem of how that resource will be divided and governed. Coase argues that as long as the parties can bargain with each other at reasonably low cost, then regardless of who owns the land, the two individuals who stand to gain economically from the land will come to a mutually agreeable and maximally profitable allocation of the right to use the land. But Coase (and his many followers) does not stop there. Instead, in most of “The Problem of Social Cost,” Coase (1960, p. 15) emphasizes that in most settings, transaction costs are substantial and must be taken into account by those who are shaping property rights.

The argument has proceeded up to this point on the assumption (explicit in Sections III and IV and tacit in Section V) that there were no costs involved in carrying out market transactions. This is, of course, a very unrealistic assumption. In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on. These operations are often extremely costly, sufficiently costly at any rate to prevent many transactions that would be carried out in a world in which the pricing system worked without cost.

After all, if one cannot expect transactions to rearrange misallocations of property rights, then initially finding the efficient allocation of rights becomes more important. “In these conditions the initial delimitation of legal rights does have an effect on the efficiency with which the economic system operates. One arrangement of rights may bring about a greater value of production than any other. But unless this is the arrangement of rights established by the legal system, the costs of reaching the same result by altering and combining rights through the market may be so great that this optimal arrangement of rights, and the greater value of production which it would bring, may never be achieved” (Coase 1960, p. 16).

And, as many others have pointed out (see, for example, Calabresi and Melamed 1972; Ellickson 1991; and Posner 2007), other ways of dealing with the governance problem, such as a merger of the ranch and farm or a joint operating agreement, can be used to reshape governance in a way that fits the limited information and technical barriers that prevent the efficient production of corn and cows. This last step makes a neat connection to Coase’s insights in “The Nature of the Firm,” which explored, in part, the boundary between the firm and the market.

Ostrom has developed the simple idea that individuals can come to a mutually agreeable solution to governance of a common property resource into a lifelong

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2 That Coase’s work extends further is a point that eludes many first-year law students and insufficiently attentive scholars. Samuelson (1995) criticizes Coase for missing the asymmetry in bargaining, while Williamson (1995) responds that Coase emphasized the need to consider transaction costs, which produce asymmetry and which make the assignment of initial property rights very important.

3 For a modern, game theoretic approach to this question, see Ayres and Talley (1995).
study of the social development of voluntary policing mechanisms that enforce the allocation of rights to use common-pool resources (see, for example, Ostrom 1990; Gibson et al. 2005; Ostrom and Hess 2006; Poteete, Janssen, and Ostrom 2010). She analyzes stint rights to grazing animals on the medieval commons, voluntary restrictions on fishing and oil drilling, and voluntary collective action to develop and manage irrigation systems in less-developed countries. She refers to her work as identifying ways that humans voluntarily solve the “tragedy of the commons” (Hardin 1968), but her work is ultimately about voluntary governance.

Ostrom postulated a theory explaining the development of voluntary governance mechanisms in her book Understanding Institutional Diversity (2005). In this work, she develops a model for understanding how structured interactions among individuals lead to either implied or codified norms or rules of behavior. These norms or rules, whether implied or codified, lead to a language of governance.

Ostrom (2005, p. 259) identifies several principles employed in the design of effective systems of governance for common-pool resources:

- **Clearly Defined Boundaries.** The boundaries of the resource system (for example, an irrigation system or fishery) and the individuals or households with rights to harvest resources are clearly defined.

- **Proportional Equivalence between Benefits and Costs.** Rules specifying the amount of resource products that a user is allocated are related to local conditions and rules requiring labor, materials, and/or money inputs.

- **Collective-Choice Arrangement.** Many of the individuals affected by harvesting and protection rules are included in the group that can modify these rules.

- **Monitoring.** Monitors, who actively audit biophysical conditions and user behavior, are at least partially accountable to users and/or are the users themselves.

- **Graduated Sanctions.** Users who violate rules in use are likely to receive graduated sanctions, varying with the seriousness and context of the offense, from other users, from officials accountable to these users, or from both.

- **Conflict-Resolution Mechanisms.** Users and their officials have rapid access to low-cost, local arenas to resolve conflicts among users or between users and officials.

- **Minimal Recognition of Rights to Organize.** The rights of users to devise their own institutions are not challenged by external governmental authorities, and users have long-term tenure rights to the resource.

While these principles describe an effective system of governance for common property resource allocation, they can also be employed in the design and formation of a stable and legitimate government. When the American colonies freed themselves from British rule, for example, one could see the progression from the Declaration of Independence to the Articles of Confederation to the Constitution as establishing the rules and boundaries for a sustainable government.
that fulfill all seven criteria. By permitting effective governance, these criteria permit cooperation, investment in productive knowledge and technical skills, and realization of the wealth and power returned by this investment.

Without cooperation and without effective governance, building a capital stock of productive knowledge and technical skills and reaping the wealth and power that flows from such an investment is impossible. These problems need to be solved in many spheres of social behavior. A business, for example, must solve problems of limited information, common resources, and public goods in order to flourish.

Yet Ostrom’s governance scholarship was often narrowly focused in comparison to the fields examined by Coase. Ostrom taxonomized property problems by ease of excluding others from enjoying the resource (exclusion) and by reduction in resource value due to use by others (subtractability) (Ostrom, Gardner, and Walker 1994). Table 1, representing the matrix of exclusion and subtractability she outlined, reflects her view of the world. Ostrom has chosen to spend her life studying common-pool resource problems, located in the upper-right-hand corner, and has produced an amazing amount of insightful work doing so.

Coase, in contrast, worked on problems distributed throughout the chart and consistently challenged the received wisdom that only centralized governmental bureaucracies could solve governance problems. Coase examined high-subtractability goods in “The Problem of Social Cost” (1960) and “The Federal Communications Commission” (1959). “The Problem of Social Cost” analyzed a series of examples, including the farmer/rancher illustration mentioned earlier. Both private goods and common-pool resources are examined, with the designation varying with the cost of taking precautionary measures. According to Coase, the economically optimal property rights regime will depend, in part, on the cost of excluding one party or the other from the resource (1960, pp. 19–44). The article’s discussion of the law of nuisance (pp. 19–24) attempts to persuade the reader that courts have already intuited this fundamental insight.

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Table 1

A General Classification of Goods

<table>
<thead>
<tr>
<th>Exclusion</th>
<th>Subtractability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficult</td>
<td>Low</td>
</tr>
<tr>
<td>Easy</td>
<td>High</td>
</tr>
<tr>
<td>Public goods</td>
<td>Common-pool resources</td>
</tr>
<tr>
<td>Toll goods</td>
<td>Private goods</td>
</tr>
</tbody>
</table>


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4 Ostrom (1998) acknowledged the link between effective governance and the success of society in her presidential address to the American Political Science Association.

5 Certain goods yield negative subtractability. Such goods exemplify the economic phenomena of network externalities, in which use of the resource increases its value to others. Notable examples include telecommunications networks and computer programs.
and partially implemented it within case law. His discussion of the law through the end of the article consistently challenged the received wisdom that government regulation was the only way to solve this form of governance problem, and he pointed out that the pricing system and markets, supported by courts, may do a better job.

“The Federal Communications Commission” (Coase 1959) focused entirely on a common-pool resource, the electromagnetic spectrum, and challenged the received wisdom that government ownership and control of this resource was required. Coase’s history of the period leading up to the Federal Radio Act of 1927 demonstrated how informal operating agreements between radio broadcasters allowed the radio industry to flourish (1959, pp. 1–6). He debunked the traditional story of massive overuse of the spectrum to the point that it was useless to listeners, illustrating instead that informal agreements worked so well that consumers purchased millions of radio receivers—an impossible consequence had the tragedy of the commons beaten the spectrum into a cacophonous composite of interference and static.

Coase (1974) examined low-subtractability goods in “The Lighthouse in Economics,” in which he challenged the received wisdom that government was necessary to produce and run lighthouses, generally seen as a quintessential public good. The article reports that between 1610 and 1675, at least 10 lighthouses in England were constructed by private parties, with no government participation (p. 364). Tolls were charged at ports, which supported the operation of the lighthouses (p. 364). Later, a government agency served as a licensing agent for private parties, securing a patent from the king to build a lighthouse and then leasing the patent to a private party, who built and operated the lighthouse (p. 365). In short, the public good problem had been solved by private parties in very clever ways that defied the traditional “tragedy of the commons” logic.

However, Coase’s interest in governance problems extended beyond the political context to governance problems present in other spheres of social behavior. His article “The Nature of the Firm” examined how successful businesses solved these problems given the constraints imposed by limited information, common resources, and public goods. Coase’s (1937, pp. 390–97) discussion of the workings of the “make or buy” decision is especially insightful, as he demonstrates how that decision is influenced by a comparison of the particularized costs of organizing, incentivizing, and monitoring behavior within the firm, as opposed to a comparison of similar costs imposed by market transactions as these, by definition, extend outside the firm.

Williamson (1996, p. 11) drew directly from and expanded on “The Nature of the Firm” when he defined the function of corporate governance for a firm as providing “an institutional framework in which the integrity of a transaction, or related set of transactions, is decided.” Williamson’s (2005) Ely Lecture to the American Economic Association laid out a theory of governance that is very similar to that of Ostrom’s analysis of governance of the commons. He began with a theory of contracting that required governance to enforce contracts given
the possibility of defection, which is a particular concern in the presence of the transaction costs associated with monitoring and enforcing arm’s-length agreements (Williamson 2005, pp. 3–8). Firms represent a form of governance that allows for the monitoring and enforcement of activities that can be exchanged through markets.

But the absence of such monitoring creates an imperfect market. This point, Williamson claimed, was one of the most important insights in Coase’s “The Nature of the Firm.” Given the possibility of market imperfections, firms form a hierarchical governance structure to at least partially solve certain contracting or market failures. He specifically distinguished between the neoclassical microeconomic view of the firm as a production function and the new institutional economic view of the firm as an organizational structure alternative to a market. Williamson (1971) first fully outlined this view in “The Vertical Integration of Production: Market Failure Considerations” and developed his views in subsequent works.

Williamson (2005, pp. 34–35) explained his developed theory of governance in his Ely Lecture:

The economics of governance has helped persuade many economists and other social scientists that (1) institutions matter and are susceptible to analysis, (2) adaptation to disturbance is the key purpose of economic organization, (3) the action is in the microanalysis, (4) positive transaction costs can be addressed in a comparative way, and (5) public policy toward business needs to be informed by a broad (organizational) understanding of the efficiency purposes served by complex contract and economic organization. Put in the negative, it is no longer acceptable to treat governance as someone else’s bailiwick, to slight adaptation, to scant the microanalytics, to assume transactions costs to be zero, or to uncritically ascribe monopoly purposes to nonstandard contractual practices and organizational structures.

He developed this position in three books of essays, which he refers to as a trilogy. First, Markets and Hierarchies (1975) studied vertical integration into firms and markets. Second, The Economic Institutions of Capitalism (1985) considered the legal governance of a market system in the presence of sustained transaction costs. And, finally, The Mechanisms of Governance (1996) focused on the study of complex economic organizations from the perspectives of law, economics, and organizational theory, in which the primary function of governance is to mitigate hazards, present in the form of depletion of common-pool resources, as studied by Ostrom, or transaction costs, as studied by Coase. According to Williamson, hazard mitigation led directly to the development of the institutions that form the basis for the mechanisms of governance.

Throughout these works, Williamson, like Coase and Ostrom, took a behavioral approach to understanding institutions and governance. He began his career at Carnegie-Mellon, studying under and with such unconventional social scientists as Herbert Simon (another Nobel laureate), Richard Cyert, James March,

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*At that point in time, Carnegie-Mellon was known as Carnegie Tech (Time 1966).
and Thomas Sargent (his first research assistant) (Swedberg 1990, pp. 115–17; Williamson 1996, pp. 23–24). The emphasis at Carnegie on bounded rationality, transaction costs, and an integrated perspective to the study of problems in economics and organizations profoundly affected Williamson’s approach to studying the firm, markets, capitalism, and governance in general (Swedberg 1990, pp. 115–17; Williamson 1996, pp. 23–25).

Whether we are modeling the governance of a common-pool resource or the organization of a firm, Ostrom and Williamson would agree that the fundamental problem is to develop a governance structure that allows credible enforcement of contracts and minimizes the rent-dissipating effects of transaction costs. These ideas are clearly outlined in Coase’s classic 1937 and 1960 articles. What makes the combination of Coase, Ostrom, and Williamson so interesting and important is that Ostrom has carefully documented the many laboratory experimental and naturally occurring ways that humans have solved governance problems first described by Coase, and Williamson has shown how these structures develop into organized firms, markets, capitalistic market systems, and formal governments.

2. Coase and Other Scholars


Order without Law, perhaps the better known of the two,7 wears its intellectual debt on its sleeve. The entire book is structured as an empirical investigation of the central example—ranchers and farmers—that Coase used in clarifying the governance problem in “The Problem of Social Cost.” Ellickson discovered that in Shasta County, California, the legal rules about liability for damage from wandering cattle differ throughout the region. Some areas are open range, meaning that ranchers do not have to compensate farmers for damages to crops from accidentally trespassing cattle (Ellickson 1991, p. 3),8 unless the cattle managed to work through a lawful fence (Ellickson 1991, p. 43). Other areas, designated closed range, require the rancher to pay for all damage from wandering cattle (Ellickson 1991, p. 3). Fences, as Ellickson documents, are expensive, both as an initial investment and as a matter of upkeep (1991, pp. 26–28). Thus, the decision to install fences is not taken lightly and will be favored only when the benefits outweigh the significant costs.

Since Shasta County’s open-range areas have a profile of ranches and farms

7 On December 15, 2010, Google Scholar listed Order without Law as having 2,846 cites and The Ownership of Enterprise as having 1,553 cites. Both have been wildly successful, by any measure. Though Order without Law has more cites, to be fair to Hansmann, Order without Law was published earlier and thus has had more years to accumulate citations.

8 In contrast, if a rancher intentionally drives cattle onto another’s land, he or she must pay for any damages.
similar to those of the closed-range areas, the outcome of the fence-building decision should not differ between areas. Under Coase’s analysis, only the identity of the fence payer would vary, with ranchers paying in closed-range areas (fencing in) and farmers paying in open-range areas (fencing out). However, Ellickson conducted an investigation—in essence acting as a legal sociologist—and discovered that this prediction did not hold true in Shasta County. No money changed hands, regardless of who had the legal obligation to pay for cattle damage.

Instead, Ellickson found the payment decision was affected by the ways that Shasta County neighbors interacted with each other. Neighbors often interacted to allocate shared resources such as fences, roads, and water and socially interacted in churches, schools, and clubs. Norms of neighborliness evolved to cover a complex web of interactions. Fence building was only one area of interaction. Thus, neighbors might be expected to share the costs of fence building but also to share other expenses by, for example, boarding and returning strays without charge. Deviations from norms of neighborliness could be punished by a gradually ascending set of sanctions, including gossip in various forums. Filing suit was considered to be a total failure and generally was considered to be socially unacceptable.

See Table 2 for Ellickson’s (1991) summary of the different types of governance mechanisms. The residents of Shasta County seemed to use virtually all of these systems and, in a graduated fashion, governed by norms that appear to be welfare maximizing (Ellickson 1991, pp. 240–58). The norms that guided the residents of Shasta County favored informal (first-party, second-party, or third-party social forces) mechanisms to settle disputes over trespassing cattle and fences but allowed resort to the legal system to solve disputes over automobile collisions with cattle. Thus, the residents were directed to different governance mechanisms for different disputes, and each governance mechanism was appropriate for the nature of the dispute.

Thus, Ellickson discovered the existence of a governance mechanism more
complex than that Coase had originally posited. Of course, in terms of Ellickson’s chart, Coase’s contribution was to show the interaction of law and contracts. Thus, Ellickson’s work constitutes a highly nuanced working out and embellishment of Coase’s original article.

In contrast to Order without Law, which derives from “The Problem of Social Cost,” Henry Hansmann’s The Ownership of Enterprise directly descends from “The Nature of the Firm.” Hansmann explores the various ways in which a “productive” enterprise might be organized. He focuses on two crucial issues, namely, the origins of the enterprise’s capital owners (in the form of stock), lenders (in the form of loans or bonds), employees (in the form of deferred compensation, partnership shares, or stock), customers (in the form of mutual stock or loans), or the government and how enterprise decision-making authority is distributed among any of these several groups.

The resolution of these issues requires solving many of the strategic problems of organization. For example, the presence of labor ownership can be explained by focusing on several problems. First, and most formidable, are the costs of collective decision making (Hansmann 1996, pp. 89–119). An enterprise must make many decisions that affect the interests of the employees. The most obvious are the assignment of particular jobs to employees and the rates of pay to particular employees. But other decisions, such as whether to open or close plants, whether to expand into new product lines, how much risk to take, and how much money should be in the pension fund, also crucially affect employee interests. The employees differ in many respects, including skill level, age, taste for risk, and health.

Few, if any, governance systems can combine extremely disparate views into a smoothly operating business enterprise. Thus, Hansmann explains, we tend to find employee ownership when the employee owners are quite similarly situated, thereby reducing the degree of diversity in preferences. “Most typically, employee-owners all do extremely similar work and are of essentially equivalent status within the firm. Rarely do they have substantially different types or levels of skills, and rarely is there much hierarchical authority among them” (Hansmann 1996, p. 91). Hansmann refers to professional service firms, such as law firms, as good examples of this phenomenon. Partners in law firms are, in general, the most successful lawyers. Young lawyers or lawyers without a significant client base are hired as ordinary labor with no ownership interest. The partners have a similar skill level, often do similar tasks, and adopt rules designed to minimize opportunities for fighting over profits. Yet employee-owned investment banking firms, consulting firms, headhunter firms, and similar enterprises often face

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* One of us (Spitzer) has had conversations with several lawyers on management committees in large firms. It is clear that as law firms grow in size and have 1,000 or more lawyers, most of the partners give up control of most aspects of enterprise decision making, at least in the short run. Instead, a small subset of the partners exercise delegated power from the full partnership to run the firm. Membership on the management committee, however, is contingent on winning a vote of the partners at regular intervals, such as once every year or two.
growing governance problems owing to their ownership structure as they expand, and this change leads them to convert to investor ownership (Hansmann 1996, pp. 96–97).

Hansmann also investigated whether the costs and difficulties of hiring labor in the open market might explain the choice of employee ownership. For example, employees have much better information about coworker productivity than do managers. Thus, employee ownership might mitigate this problem, as employee owners have the means and incentive to monitor and report on fellow employees (Hansmann 1996, p. 70). Thus, we might expect more employee ownership when monitoring costs are quite high and shirking is costly. However, Hansmann explains, the actual pattern of employee ownership is quite the opposite; lawyers, for example, are fairly easy to monitor but typically work in employee-owned firms. Similarly, longtime employees acquire skills valuable solely to the firm for which they work. These employee quasi-rents are subject to exploitation and appropriation by the firm, as these skills find no market other than with the current employer.10 Anticipating this problem, employees may underinvest in such skills, even if these skills are necessary to run a more efficient and profitable firm. Perhaps, Hansmann reasons, employee ownership could be expected to ameliorate this problem. If this hypothesis were true, employee ownership should proliferate where quasi-rents are extremely troublesome. However, the observed pattern of employee ownership does not follow this theory.

Hansmann investigates other hypotheses for employee ownership, including avoiding strategic bargaining behavior, better communicating employee preferences, and reducing alienation of the worker on the job. Although each hypothesis makes good theoretical sense, none is confirmed by the pattern of observed firms.

Hansmann continually roots his work in observed patterns in industry, testing which of the various theories of governance explains the empirical data and deriving tests from numerous case studies. Hansmann’s highly impressive work compellingly presents the case that governance, carefully thought through and tested, can explain an enormous amount of the variation in The Ownership of Enterprise.

3. Conclusion

The enduring power of Coase stems from the sophistication with which he and his intellectual progeny examine the most basic problems of human organization. Many economists restrict their inquiry of governance to only organized governments with clearly enforced rules of law backed up by force. Ostrom, Williamson, Ellickson, Hansmann, and Coase, however, went beyond this limited context in examining how the voluntary ways that humans organize to produce

10 Hansmann (1996, p. 71) refers to this as “lock-in.”
and distribute goods and services evolve, initially into organized institutions with enforceable rules, and then finally into governments. In essence, Coasean scholars are interested in the origins of human economic interaction through voluntary association and mutual enforcement of rules of behavior and how those interactions can finally lead to corporations, to partnerships, to common-pool management institutions, to contracts, and, under some circumstances, to legitimate governments. These interests represent a huge portion of human activity and explain why scholars in many fields find themselves returning to study the work of Ronald Coase.

References


