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Interview with Professor Ronald Coase

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The following interview was conducted by Wang Ning on December 28 and 29, 2010 at Chicago. On December 29, the Unirule Institute of China organized a conference in Beijing, "Coase and China", to celebrate the 100th birthday of Professor Ronald Coase, who won the Nobel Prize in Economics in 1991 for "his discovery and clarification of the significance of transaction costs and property rights for the institutional structure and functioning of the economy".

Professor Coase was born in London in 1910, educated and, later taught, at the London School of Economics before migrating to the United States in 1950. While in the United States, he taught at University of Buffalo and University of Virginia before moving to the University of Chicago to take on the editorship of the Journal of Law and Economics. Professor Coase retired from the University of Chicago Law School in 1982.

Professor Coase has long been interested in China ever since he read Marco Polo as a schoolboy. In the early 1980s, Professor Coase urged Steven N.S. Cheung to go to University of Hong Kong, which he thought was the best place to study China's newly launched economic reform. In 1993, Professor Coase invited Sheng Hong as a visiting scholar to the University of Chicago Law School. More recently, Professor Coase organized and, through the Coase Foundation, funded the 2008 Chicago Conference on China's Market Transformation and the 2010 Chicago Workshop on the Industrial Structure of Production. The 2008 Conference brought together scholars (from China and North America, including economists, sociologists, political scientists, economic historians, and legal scholars), Chinese government officials, and entrepreneurs to investigate China's transition to a market economy with Chinese characteristics. The 2010 Workshop explored the study of the industrial structure of production in China. How China Became Capitalist, a book co-authored with Ning Wang, will be jointly published by Palgrave /Macmillan and the Institute of Economic Affairs in 2011.

The newly established Coase China Society aims to promote the development of Coasean economics in China, which Professor Coase prefers to call the "right economics". According to Professor Coase, the right economics should study the working of the real world economy. If economics is properly conducted, Professor Coase believes, it shall be able to tell how the economic system works and how to improve it if something goes wrong. In Coase's view, economics has much to learn from modern biological and medical sciences which study how human body works from the cell level up to the organism level, how different organs function in a coordinated manner, and what can be done if something needs a fix.

In the following interview, Professor Coase explains the mission of the Coase China Society and his vision of economics and the part to be played by Chinese economists.

WN (Wang Ning): First of all, happy birthday, professor Coase. As you know, Chinese economists are now holding a Conference in Beijing, "Coase and China", to celebrate your 100th birthday. To my knowledge, no other western economist, probably with the exception of Karl Marx, has ever been so honored in China. The reason is twofold. It first has to do with the powerful influence of your ideas. Second, you clearly have a special feeling toward China. In Chinese culture, reciprocity is a high virtue. The first question many Chinese people have in mind is, what got you interested in China?

RC (Ronald Coase): I don't know why I am interested in China. I have been interested for a long time, too long for me to remember. I read Marco Polo many years ago, probably as a schoolboy. It was an impressive book. I don't think anyone can read the book without being impressed by the Chinese civilization. It went back many centuries. It made great achievements long before the rise of the West. That impression stayed with me forever.

WN: Did your relationship with Steven Cheung have any impact on your perception of China?

RC: None. I had the view about China long before I knew any Chinese. Of course, I had a very good relation with Steve. He spent two years at Chicago many years ago after his study at UCLA. We talked and we quickly became good friends. That was one of the best times in my whole life. I think it was beneficial for both of us. Unfortunately, Steve went to University of Washington (Seattle) after two years. I always thought that was a mistake.

WN: I remember Steve told me that that was probably the only decision he later regretted.

RC: Steve somewhere said that he grew up in Hong Kong and missed water. But that didn't seem to me to be a good reason.

WN: Another reason I remember Steve gave somewhere in his writing was that he wanted to be independent. If he stayed at Chicago, he was afraid that he could not develop his own thinking give the strong presence of Milton Friedman, George Stigler, and other weighty figures at Chicago.

RC: That wouldn't happen. I was able to do my work at Chicago just as freely as I was at Buffalo.

WN: I think you were right. Given Steve's character, I don't think anyone could stop him from developing his own thought.

RC: I am glad that I later strongly urged Steve to go to Hong Kong. I did not know how much good it would do. But given Steve's influence in China, I think it was a good move.

WN: Steve certainly played a critical role in developing and explaining your ideas in China. From that point of view, his move to Seattle also helped to influence people like Doug North and Yoram Barzel. I remember North said many times that he learned transaction cost economics from Steve, and Steve learned from you.

RC: I never doubted that Steve would do great work no matter where he was. And good economics will attract good economists. But if he stayed in Chicago, he could have done much more.

WN: You are probably right. If Steve stayed, the Coase-Cheung team would last for more than a decade at Chicago even before Steve went back to Hong Kong. Given your character, you would not be aggressive enough to push your vision of economics at Chicago. But if you were teamed up with Steve, what you called good economics probably would have prevailed in Chicago.

RC: That's right.

WN: You mentioned many times that you do not like the term, "Coasean economics", and prefer to call it simply the "right economics" or "good economics". What separates the good from bad, the right from wrong?

RC: The bad or wrong economics is what I called the "blackboard economics". It does not study the real world economy. Instead, its efforts are on an imaginary world that exists only in the mind of economists, for example, the zero-transaction cost world.

Ideas and imaginations are terribly important in economic research or any pursuit of science. But the subject of study has to be real.

WN: Since the Coase China Society is named after you, we cannot avoid using Coasean altogether.

RC: I do not like the term Coasean economics. The right economics that I have in mind, or what you called Coasen economics, is what economics ought to be.

WN: Absolutely. The whole reason to establish the Coase China Society is exactly to bring it about so that the right economics will prevail.

WN: The second question many Chinese have in mind for you is, what you think other countries can learn from the Chinese experience of market transformation? Is there any general lesson to be learned from the China model?

RC: I don't know. You don't know what you can learn until you try to learn.

WN: I think this point is critically important. If I understood correctly, you are saying that learning from China or any other example is not like learning from a book or cooking recipe, but more like learning by doing. If the Chinese economic reform is an experiment,

learning from China remains an experiment. Different countries will learn different things even if they learn from the same model.

RC: Exactly. What we do is all experiment.

WN: You remind me a saying made popular by Deng Xiaoping that reform is an experiment. But the experimental approach does not guarantee success. I have in mind Mao's experiment with socialism, the Great Leap Forward, and so on.

RC: Nothing guarantees success. Given human fallibility, we are bound to make mistakes all the time.

WN: So the question is how we can learn from experiments at minimal cost. Or, how could we structure our economy and society in such a way that collective learning can be facilitated at a bearable price?

RC: That's right. Hayek made a good point that knowledge was diffused in society and that made central planning impossible.

WN: The diffusion of knowledge creates another social problem: conflict between competing ideas. To my knowledge, only people fight for ideas (religious or ideological), only people are willing to die for their ideas. The animal world might be bloody and uncivilized. But animals, as far as we know, do not fight over ideas.

RC: That's probably right. That's why we need a market for ideas. Ideas can compete; people with different ideas do not need to slaughter each other.

WN: That seems to me the number one task for any government: to foster an active market for ideas and maintain civil order.

RC: That's right.

WN: You have said many times that the Chinese economic reform was extraordinary and unexpected. The third question is what you think was mainly responsible for this unexpected transformation?

RC: We explain this in our book (How China Became Capitalist). The events were unexpected and could not be stated in advance. It must have something to do with certain personalities. If Deng never existed, the story would be quite different. Those developments, or what we called marginal revolutions in the book, such as the household responsibility system and the Special Economic Zones, might be expected. But when they happened, we were surprised.

WN: Indeed, the Chinese were also surprised themselves.

WN: Here comes the fourth question. You have high hopes that the future of economics is in China. What makes you think so?

RC: It is obvious. It is the size of Chinese population. A new idea is always accepted only by a small proportion of the population. But a small proportion of the Chinese is a big number.

It also has to do with the fact that China is now open for new ideas. The old way of thinking has been discredited. But new ways have not been developed yet. Both new good economics and new bad economics have a great chance in China. We want to see that good economics prevails.

China has another advantage. As we have argued in our book, there is still too much to learn from the Chinese experience of market transformation. There is a lot more to learn from how the market economy with Chinese characteristics operates and evolves over time. If the Chinese economists rise up to the challenge, they will contribute to the development of economics.

Here is a letter to Sheng Hong I wrote in 1988. There I said that I had a "firm believe that an understanding of what is happening, and has happened, in China will greatly help us to improve and enrich our analysis of the influence of the institutional structure on the working of the economic system". I still hold the belief. Indeed, the belief has become even stronger over time.

In the past, economics was once mainly a British subject. Now it is a subject dominated by the Americans. It will be a Chinese subject if the Chinese economists adopt the right attitude.

WN: I am deeply moved by what you just said. That will give Chinese economists a strong motivation and confidence to develop their own way of thinking.

RC: That's exactly what they ought to do. That's another reason that I do not like the term Coasean economics. If the right kind of

economics that I have in mind is first developed in China, it will be rightly called the Chinese school of economics by future historians.

WN: This I believe is a very, very important point. You are saying that Coasean economics or what you call the right economics is not developed yet. It is an open subject. And you believe that the Chinese economists have a great chance to develop the subject.

RC: Exactly. I think deference to authority is a bad trait of the Chinese. What Chinese economists should do is to develop their own thinking based on a careful and systematic investigation of the working of the Chinese market economy. My work, "The Nature of the Firm" or "The Problem of Social Cost", does not provide an answer to questions that the Chinese economists should tackle. The most my work or the work of anyone else can do is to suggest possible directions to tackle the problems.

WN: I agree. I think more and more Chinese economists have recognized that they either have to strike out on their own way or have no way to go. The recent financial meltdown and economic crisis, and particularly the lack of coherent response among American economists, have helped them to realize the flaws of mainstream economics.

RC: The main function of the Coase China Society, in my view, is to facilitate the development of independent thinking among Chinese economists. The Society will not be run as a big organization, but a network of many clusters of scholars. Each scholar will pursue what he thinks is the most important question. Each cluster of scholars will form a small community, working on some aspect or some region of the Chinese economy. We shall encourage all kinds of research, historical, statistical, or analytical as long as it sheds light on how the Chinese economy works or changes. This is the only way to get a well-rounded view.

WN: Yes. The Society will collaborate with Chinese universities. A Chinese university can become a corporate member of the Society and specialize in studying the economic problems that are unique to where it is based. For example, Zhejiang University is well positioned to study the development of Wenzhou, Yiwu, and other phenomena unique to Zhejiang province.

RC: One way for the Society to advance the right kind of economics to China, and encourage Chinese economists to do the right kind of work, is to have a journal of its own. When I was editor of the Journal of Law and Economics, I was very active. I would attend seminars and conferences and talk to people to see what kind of research they were doing. I would solicit their articles if I thought they were good ones. And frequently, I would talk to people and encourage them to conduct certain studies with the promise to publish their article.

WN: This is indeed very different from the way journals are run now.

RC: I do not believe any other journal was run the same way then. Most journal editors wait for submitted articles and use external reviewers to select the articles for publication. This was not the way I worked. I knew what kind of articles I would like to publish, and I went around to find people to write them.

I'll give you an example. Bernard Siegan came to the University of Chicago Law School as a Fellow and proposed to write a paper on the pros and cons of zoning. I told him instead to find a place where zoning did not exist and to see what happened to land use in comparison to places with zoning. He wrote a great paper about land use in Houston which did not have zoning (The paper was published as "Non-Zoning in Houston, Journal of Law and Economics (1970)).

Another example is Steve's article on bees. I knew there were contracts between beekeepers and orchard owners in Washington. I asked Steve to investigate it. He did a splendid study (The paper was published as "The Fable of Bees, in Journal of Law and Economics (1973)).

Richard Sandor wrote a paper on the setup of a plywood future contract, which, however, failed. Sandor was very upset because no one would publish a paper on a failed market. I was not upset at all since most markets failed. The paper just showed how difficult it was to set up a market. I published his paper (The paper appeared as "Innovation by an Exchange: A Case Study of the Development of the Plywood Future Contract, Journal of Law and Economics (1973)).

WN: I think this is one of the greatest public services you have done to the profession. But the opportunity cost was probably very high. At the prime time of your research, you devoted yourself to the Journal instead of your own research. You might have written another one or two articles as great as "The Nature of the Firm" or "The Problem of Social Cost."

RC: I do not regret my decision at all. This was the main attraction for me to come to Chicago. I think this was the only way to develop a subject. If it were not for the Journal, many articles would not have been published or even written.

WN: Based on your experience, what should the Society do if it launches a new journal?

RC: You should have a clear view of what you want to accomplish, what articles you want to publish and what kind of research you want to encourage. You shall not worry about how other people think about your views. You cannot control what other people think.

You will not monopolize the whole field. If you believe in your view, you have to be strong to defend it and promote it in the market for ideas until you are convinced that it is proved wrong. This is the only way to be independent.

WN: I totally agree. But I don't think we have got the second Coase yet. When you started editing the Journal of Law and Economics, you were already well established in the profession. Your view, no matter whatever it was, would be considered seriously and readily command agreement.

RC: I do not think that was the case. I always find myself in disagreement with the prevailing view. Even today, my view of the subject is not accepted by the profession. You certainly do not need a second Coase to make the Coase China Society successful. Instead, you will have a Cheung, or Wang, or some other Chinese name.

WN: I have three more questions left. The first one is, many people have said that China has succeeded in transforming itself from a planned economy to a market economy without private property rights. How could that happen?

RC: All economies have different systems of property rights. The common classification of private versus public property rights, the former associated with capitalism and the latter with socialism, is too simplified a view. Britain and America have different systems of property rights. China under Mao and the Soviet Union were also different in the ways property rights were structured. A good system of property rights is the one that economic resources, including human talents, are efficiently utilized. I think China will develop its own system of property rights. Whether you call it socialist or capitalist does not matter.

WN: Here comes the second question. Your 100th birthday is approaching, what you have to say to Chinese economists?

RC: What I am going to say have nothing to do with my birthday. All they should do is to study the Chinese economy based on how it actually works. It might be historical, or statistical, or analytical. Whatever form it takes, it has to be based on the working of the Chinese economy.

WN: This seems a simple task.

RC: It certainly is not something like $E = MC_2$. But the way the economic system works is complicated. It has many components. Each component is itself a mini-system. The way they interact with each other and the whole system works is very complex. A regression with aggregated statistical data will not tell you much about the way the economy works.

WN: This is the last question. What you hope the Coase China Society should do in the near future?

RC: The Society should get it running as soon as possible. I mean it should get the research going in China. I have met many Chinese economists and read many of their works. They are very capable and some of their work is very promising. The Society will succeed as long as it gets the Chinese economists to study the working of the Chinese economy. If a journal helps, we will launch a journal. If workshops or conferences are needed, we will run workshops and conferences. If it needs funding, we will get funding. I expect the Chinese government and Chinese businessmen to be very supportive of the Society and eager to fund the research.

WN: Thank you very much, professor Coase. I cannot wait to share your enthusiasm and high hopes with my colleagues in China. Your work and your love for China have inspired many Chinese economists and won their deep respect. I am sure the Coase China Society will live up to your expectation.

RC: I am now 100 years old. At my stage, life requires a constant effort. As I told you many times, do not get old. But I have no doubt that Chinese economists will do the right kind of work, and make their contribution to advance economics. This hope keeps me happy and I thank them.

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