



COASE AND THE SCOTTISH POLITICAL ECONOMY TRADITION

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October 9 2021

Abstract

Coase's work took a different approach to that of standard economics and he made a series of reflections over the years setting out his methodological views. He first employed this approach in his path-breaking paper on 'The Nature of the Firm', which was drafted while in his first academic post, at the Dundee School of Economics and Commerce. The distinctive Scottish political economy approach still dominated economics in Scotland at the time, although the Dundee School stood apart from it. The purpose of this paper is to consider how far Coase was influenced by being in Dundee, and in particular by the Scottish political economy tradition. We find little evidence of influence from the Scottish tradition while Coase was at Dundee. Nevertheless we identify many features of Coase's methodology which accord with the Scottish tradition. In particular we draw out the similarities with Adam Smith's approach, which Coase had encountered before coming to Dundee. We conclude that there was a missed connection with the Scottish tradition as it had continued in Scotland into the twentieth century.

Keywords: Ronald Coase, Scottish political economy, economic methodology, law and economics

JEL Classifications: B12, B31, B41, K00

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Coase and the Scottish Political Economy Tradition¹

Introduction

Ronald Coase wrote up the research into the theory of the firm, which contributed to the award of the Nobel prize in economics in 1991, while he held his first academic post at the Dundee School of Economics and Commerce. Analysis of Coase's contribution to economics has increasingly focused on his distinctive methodology, something which was already apparent in his 1937 paper on 'The Nature of the Firm'. Understanding his methodology has been a central feature of analysis of the diverse interpretations of this article, as well as of the other citation for his Nobel prize, 'The Problem of Social Cost' (see e.g. Medema 2011, Boettke and Candela, 2016 and Marciano 2017).

On the face of it there seem to be interesting parallels between Coase's methodology and the Scottish political economy tradition, something noted in passing by Wang (2003: 823, n.1). This tradition was still alive and well in the 1930s when Coase was at Dundee, posing the question as to how far Coase was influenced by the intellectual environment when he was in Scotland. Even if such influence cannot be identified, it is interesting to consider the possibility of a missed connection. Given that some commentators have identified contradictions within Coase's methodology, might these have been averted had he absorbed more of the Scottish tradition and its philosophical foundations?

In posing and addressing this question, we apply what we will explain to be a Coasian approach, starting with the empirical context of his ideas. We therefore consider first Coase's educational path before he arrived in Dundee, as informing his views on economics. This is important not least because he had already formulated much of the argument for 'The Nature of the Firm' before arriving in Dundee. We then explain the nature of the Scottish political economy tradition, and its expression in the 1930s Scottish environment which Coase encountered. This provides the background for considering how far Coase may have been influenced by that tradition, considering his methodology in relation to it. While his 'Nature of the Firm' article contains methodological statements, we go on to consider his *corpus* of work, within which he both elaborated and developed his views on methodology. Finally we consider Coase more directly in relation to his reading of Adam Smith, whose direct influence we conclude to have been the most important.

The Nature of the Firm and Dundee

Ronald Coase's introduction to economics occurred almost by accident, via an education in 'commerce'. He had an unusual student experience. He attended Kilburn Grammar School in London, England, choosing in his final years to take as an external student the first year in the

¹ This paper has benefitted from comments on an earlier version following presentations to the 18th SCEME Seminar: 'Origins of the Theory of the Firm: Ronald Coase at Dundee 1932-1934', University of Dundee, 18 November 2013, to the Department of Economics, University of Victoria, 19 February 2014 and to Henley Business School, 20 May 2015, and on this version from John Smithin.

London School of Economics (LSE) B.Com. degree, largely because he lacked the Latin requirement needed for entry to his preferred degree in history. Having passed the intermediate examinations he attended LSE in person from 1929 to 1931. There he was taught by Arnold Plant, newly appointed as Professor of Commerce, whom Coase credited with introducing him to Adam Smith's invisible hand (Cord 2018, Marciano 2018).

Having passed the examinations needed to graduate, Coase still lacked, according to the regulations, the required time in attendance at LSE. Thus Coase took up the one-year Sir Ernest Cassel Traveling Scholarship awarded by the University of London. This allowed him, under the supervision of Plant, to visit the United States studying the behaviour of firms by interviewing senior personnel, thus fulfilling the LSE requirement for graduation (Coase 1995). Coase seems to have engaged enthusiastically with this direct exposure to business practice, which was a formative experience in terms of motivating and informing his subsequent theoretical development. Coase (1991) reports that he came back full of ideas on the theory of the firm.

On his return to Britain in 1932, Coase took up his first professional job as Assistant Lecturer in the Dundee School of Economics and Commerce in Scotland. That November Coase wrote to his American girlfriend (later his wife) as follows:

As regards work, I have decided to write an article for one of the English academic economic periodicals. So I shall have to get busy. If I can get it published, it will be of great help to me academically. Do you understand what I mean?

So much for news – if the above can be called news (Coase, 1932).

Was this an announcement of 'The Nature of the Firm' eventually published in 1937, and one of the two main articles cited in the award of the Nobel Prize in 1991? We cannot be absolutely sure as Coase did publish an article in 1935 on duopoly in the *Review of Economic Studies*. But we do know from Coase himself that the material in his first lecture on the course entitled 'The Organisation of the Business Unit' was essentially the argument published in 'The Nature of the Firm' (Coase 1995, p. 234). As was usual for the Scottish academic year, that course commenced in October 1932. His colleague and friend Duncan Black, who had also just been hired as an Assistant Lecturer at the Dundee School, reported that 'Coase had expressed to me 50 times or more the theory of the firm in which he was then engaged' (Note by Duncan Black, GB248 DC 304/7/1, Duncan Black Collection, University of Glasgow Archives and Special Collections). Having just returned from the year in America which inspired the ideas in the famous paper, and so soon after lecturing on these ideas, it seems very likely that Coase is announcing to his future wife the article which proved to be so influential.

Coase was lucky to be hired in 1932 in the depths of the Depression. He had just completed the requirements of the B.Com. degree at the London School of Economics by travelling for the preceding year in the United States. The Dundee School of Economics and Commerce had been founded in 1931 with the purpose of training students for business. Sir William Beveridge of LSE had been an adviser. As Coase himself acknowledged: 'If the Dundee School had not been established in 1931, I don't know what I would have done. As it was, everything fell into place. I was to be an economist and could evolve' (Coase 1995, p. 234).

At this stage Coase had not studied a great amount of economics. His major influence, as noted above, was Arnold Plant, who encouraged the study of Adam Smith. At Dundee Coase continued this interest in Smith but also was inspired by the new work on imperfect competition arising in 1933 from the publication of the works by Joan Robinson and Edward Chamberlin. His letters from Dundee to his friend Ronald Fowler at LSE in 1933 were full of discussions of cost curves (Coase 1933).

Coase and his fellow new appointee Duncan Black also attended a class entitled Analytical Economics given by Kenneth Eastham (another LSE product) at the Dundee School, which was for graduates of the Scottish universities who intended entering into business. The emphasis was on value theory, the supply curve and duopoly. In short while at Dundee Coase was still young and his ideas were still being formed, with LSE as the network which nurtured him. The importance to him of the LSE is evident from the fact that he returned there in the summer break.

The Scottish Political Economy Tradition

The intellectual environment in Scottish economics in the 1930s, when Coase came to Dundee, was still heavily influenced by the Scottish political economy tradition stemming from the Enlightenment period.² It was grounded in a realist philosophical tradition forged in large part by David Hume and Adam Smith then applied to the development of economics. Hume's philosophy in particular emphasised the limits to knowledge about complex systems (see further Dow 2009). In counterpoint to Cartesian rationalism, Hume argued that reason alone was insufficient for knowledge. Rather (uncertain) knowledge was built up as belief, drawing on a wider range of human faculties, including sentiment and imagination as well as reason, all drawing on and applied to experience. This was the basis for a pluralist understanding of knowledge.

Foundational to all enquiry was a theory of human nature. On this basis, Smith (1795) contributed a philosophy of science which explored the motivation of the philosopher as the drive to understand surprising events which caused a sense of awe and wonder. Theories were accordingly developed which were psychologically satisfying in relation to real experience, as well as to reason, belief and aesthetics, and which could be presented persuasively to an audience. But given the limits to knowledge no one theory could be demonstrated to be superior to another. The audience in the eighteenth century was concerned primarily with practical problems of technology, production, trade and policy and related moral issues. This provided the impetus for economic analysis as a set of case studies within moral philosophy.

The methodology employed for developing economic theories arose from the Scottish understanding of Newtonian experimental methodology (Montes 2006, Comim 2006). From observations, provisional principles would be developed which would then be reassessed in light of further observation. Rather than with Cartesian axioms, the expectation was that these principles might require adaptation in different circumstances and would always be open to challenge. For economics, the 'experiments' referred to detailed historical study of different contexts, including a study of the institutions and conventions which applied in these contexts. Not only was Cartesian

² See further Mair, ed. (1990), Dow, Dow, Hutton and Keaney (1998) and Dow and Dow, eds (2006).

deductivism insufficient, so was inductive reasoning, given the complex, evolving nature of the subject matter. Rather, the mode of reasoning was one of abduction. This process inevitably involved drawing on a range of what subsequently emerged as different disciplines in the social sciences, as well as on philosophy and history. The selection of methods and sources of evidence would be determined by the problem being addressed – a pluralist methodology. In the absence of scope for demonstrative proof, adoption of new theories required persuasion, as Smith (1762-63a) set out in his theory of rhetoric.

Economic methodology developed differently elsewhere. In England, John Stuart Mill's influence was particularly strong in promoting the development of theoretical structures based on deductive reasoning, such that applied economics came to be understood as the dual of pure theory and history was pursued as a subject separate from economics.³ Thus, by the 1930s, the Scottish approach to economics as an applied subject was overshadowed by the ascendancy of pure theory elsewhere in Britain. The discipline of economics had become widely established in Britain and teaching was dominated by a few key textbooks, in Scotland as elsewhere (Dow and Hutton 2006).

Nevertheless, higher education in Scotland more generally continued to be influenced by the traditional Scottish requirement for undergraduates to start their degrees with a course in either moral philosophy or logic and metaphysics. Further, the Scottish tradition was maintained in research. As Alec Macfie (1955: 98) put it: 'The trend has been to teach the orthodox line, but to do one's special work in historical, social or semi-philosophical research'. A particular focus was the work of Adam Smith. There was also a significant degree of engagement by academics in public policy (Dow, Dow and Hutton 2000). Dominant figures in Scotland in the early decades of the twentieth century were William Smart and William Scott, successive Professors of Political Economy at the University of Glasgow. Macfie (1952: 129) describes these upholders of the Scottish tradition as being:

humane, widely experienced scholars. Each of them had the firmest grasp of and respect for facts, human as well as industrial. Their sense of history and its constant relevance to any finally valuable economic theory is worthy of the master who was their continual joy and inspiration. And their active part in the affairs of a great industrial city was as inevitable as his. In each of them is found that energetic growth from the core of hard facts to their deeper philosophic meanings which was Adam Smith's most shining gift. And each of them contributed his thinking to the direct service of the State on many commissions and committees, just as did Adam Smith in the more personal, less official manner of his day.

This description is sufficiently close to accounts of Coase as to indicate parallels between his approach and the Scottish tradition.

³ Deductivism rose to the ascendancy over inductivism following the *Methodenstreit*. While this struggle was more marked on the Continent, Marshall's efforts to promote a synthesis in order to establish the discipline on a firm footing in England in fact tipped the balance to deductivism.

The Scottish Political Economy Tradition and Coase in Dundee

The Dundee School of Economics and Commerce was established in 1931 with the support of the LSE. It was in many ways at odds with the Scottish tradition, focusing more on the mathematical formalism of the emerging neo-classical tradition. Munby (1957: 60) suggests that the School might be 'regarded as a foreign irritant in the Scottish oyster'. But there was also a neo-Austrian strain at the LSE which was promoted there later by Hayek, who was himself strongly influenced by the Scottish political economy tradition (Hayek 1960, 1967). Indeed there was an interest in Austrian thought at the University of Glasgow. The Department of Political Economy in which Black studied had earlier been influenced by Austrian economics when Professor William Smart (who died in 1915) translated into English and edited two works of Böhm-Bawerk and *Natural Value* by von Wieser (Dow and Hutton 2006). Coase (1991, p. 4) was to identify Hayek as one of his major influences. But Hayek only came to the LSE in 1932 after Coase had left (though he gave public lectures there in early 1931), so his main influence came later. The influence of the LSE more generally on Coase, particularly after his return there in 1935, is important for the development of his ideas and has been thoroughly explored (Thomas 2016, Marciano 2018, Medema 2020, Boettke and Caldera 2020).⁴ But our interest in this paper is in Coase's time at Dundee.

Coase had already had some exposure to the tradition given the earlier influence of Plant's teaching on Smith. But he was exposed to the Scottish political economy tradition more directly through his close association with his fellow new appointee, Duncan Black. It is clear that Duncan Black and Ronald Coase influenced each other intellectually during their formative years at the Dundee School. Black later became well known for his work on decision making in committees and, more generally, social choice theory. In 1983 he sent Coase a copy of his festschrift, Tulloch, ed. (1981). Coase (1983) replied to Black:

Going through it, and particularly looking at my own contribution, I was led to muse on our Dundee days together. That was a very happy period – and one can now see that so far as the two of us were concerned, a very productive period. We had little idea in those days of how successful our writings would prove to be.

So Duncan Black and Ronald Coase became friends at Dundee, and stayed friends throughout their lives. Again in 1987 after a visit to Dundee Coase wrote to Black as follows: 'I didn't exaggerate when speaking of our period together in Dundee. It was a wonderful time for us and it was during these two years that we laid the foundations for what we have accomplished since' (Coase 1987).

While Black did not work in the Scottish political economy tradition he was thoroughly familiar with it. In his many conversations with his friend he would have spoken of the degree he had just completed at the University of Glasgow where Scottish Political Economy was the ruling paradigm in the Department of Political Economy. Further Black would have taken a compulsory course in either moral philosophy or logic and metaphysics which nurtured an important philosophical dimension of the Scottish tradition. We can conclude that Coase learned from Black of that

⁴ Later in his career Chicago was also an important influence, see Harris (2003).

tradition as practiced in the Scottish universities in the early twentieth century (Dow and Hutton 2006). Indeed Coase himself confirms this surmise:

[Black] came from the University of Glasgow, where economics was still treated, as it had been in the days of Adam Smith, as a branch of moral philosophy. Black came to Dundee with an interest in philosophy and politics as great, or perhaps greater, than his interest in economics. At Dundee, he was brought into contact with the analytical approach to economics...which was dominant at LSE (Coase 1993, p. 357).

Coase's methodology and the Scottish Political Economy Tradition

Coase opened his paper on 'The Nature of the Firm' with a methodological statement. He emphasised the importance of exercising 'good judgment in choosing between rival sets of assumptions'; assumptions should be both realistic and tractable (Coase 1937: 18). This realism continues to be evident as the article proceeds, with the emphasis on understanding why the real world is at it is – in particular why production is organised in some cases by markets and in other cases by firms. Already we see a common concern with Scottish political economy, that theory address the real world as its subject matter rather than problems internal to theory.

Nevertheless Coase goes on to explain that an assumption needs to be tractable in the sense of allowing reasoning with respect to substitution at the margin, and, quoting Lionel Robbins (of the LSE), that the assumption must 'relate to formal relations which are capable of being *conceived* exactly' (Coase 1937: 18). He concluded the article by noting that his new theory of transactions costs provided a static equilibrium theory for the split between organisation by the market and organisation by firms. He also noted that it provided a theory of moving equilibrium to explain the changing size of firms (Coase 1937: 30). He seems to be using the term 'equilibrium' in the mainstream sense of a theoretical solution rather than a state of rest. Here we see Coase conforming to the type of approach to economics which was based on concepts which lent themselves to the calculus (although he himself did not use mathematics) and which therefore underpinned the rising dominance in economics of a particular form of deductivist mathematics. Within Coase's first article we thus find what were to become conflicting aspects of his methodological approach. In order to understand his methodological thinking better, we explore his later writings where he expanded on, and indeed developed, his position.

Coase's realism continued to be evident throughout his career. He consistently argued that economics should be defined by its subject matter; his critique of mainstream economics stemmed from its increasing abstraction away from the workings of the economic system (Wang 2003). This critique applied particularly to Robbins's definition of the subject matter in terms of choice (Medema 1994: 129). The purpose of theory was to explain why particular phenomena were observed. This argument was made in specific contrast to Friedman's (1953) instrumentalist argument in favour of the purpose of theory being to predict. Indeed Coase was doubtful of the scope for econometric analysis, given the range of relevant variables which eluded quantification. He was further concerned that econometrics imposed theoretical preconceptions on observation (Coase 1982: 16). For Coase, just as he had stated at the start of the 'Nature of the Firm' article, it

was important for assumptions to be realistic and for theory to encompass the relevant elements of reality.⁵

This realism provided the basis for a methodology which had much in common with the Scottish tradition. Coase's theorising was built on detailed analysis of particular cases, drawing on history and emphasising the role of institutions. Attention to the complexity of context was critical for understanding the operation of provisional principles, and exceptions to them. As in the Scottish tradition, demonstrative proof was impossible, so Coase too emphasised the importance of rhetoric (Mäki 1998, p. 65).

Coase's later focus on property rights and the role of the legal system more generally mirrored Smith's (1762-63b) stages analysis of the emergence of commercial society. He argued for economists to draw on other disciplines in their own right, rather than colonising them (Coase 1997a, 1999). In particular he argued that a theory of economic decision-making required a theory of human nature, and that this would benefit from drawing on research in sociobiology (Medema 1994: 130). Smith accordingly provided support for Coase's stance against 'blackboard economics':

Adam Smith would not have thought theory sensible to treat man as a rational utility maximiser. He thinks of man as he actually is – dominated, it is true, by self-interest but not without some concern for others, able to reason but not necessarily in such a way as to reach the right conclusion, seeing the outcome of his actions but through a veil of self-deception (Coase 1976: 545-6).

Nevertheless, Coase drew the distinction between the Smith (1759) of the *Theory of Moral Sentiments* and Smith (1776) the economist: '*The Theory of Moral Sentiments* is a study of human psychology. The *Wealth of Nations* is a study of the organisation of economic life' (Coase 1976: 543). Indeed Coase argued that self-interest was the dominant motive in the *Wealth of Nations* and that the argument for benevolence in Smith arising from renewed attention to the *Moral Sentiments* had been overplayed. Hodgson (1989) identifies this veering towards the concept of the individualistic 'economic man' concept, taken further by Williamson, as lending Coase's work to mainstream methodological treatment. Yet Coase continued to challenge the assumption of man as a rational maximiser, on the grounds that self-interest was pursued as much by instinct as by rational calculation (Coase 1976: 545).

For economists as much as for economic agents, Coase understood knowledge as belief, such that persuasion was an inherent element of communication. Here he seems to have been influenced by his encounters with Thomas Kuhn at Stanford (Coase 1982: 26).⁶ But Coase developed these ideas further by treating persuasion as an exercise in marketing within the market for ideas; the emergence of dominant ideas was the outcome of a competitive process (Elzinga 1972). Also consistent with his theoretical analysis, Coase argued that this competitive process required

⁵ Bertrand (2015) argues that Coase was not arguing against Friedman's methodology in practice, which did indeed differ from his methodological statement.

⁶ Skinner (1972) draws parallels between Kuhn and Smith, of whom Kuhn had been unaware.

appropriate institutions. Government was one such institution: ‘harmony in human nature does not imply that no government action is required to achieve the appropriate institutional structure for economic activity’ (Coase 1976: 543). Yet he argued more generally against government intervention on the neo-Austrian grounds that policy-makers inevitably lacked sufficient knowledge (Coase 1991).⁷

The inevitable prevalence of uncertainty was also a factor in his analysis of the firm. He noted in ‘The Nature of the Firm’ that ‘It seems improbable that a firm would emerge without the existence of uncertainty’ (Coase 1937: 22). Nevertheless he rejected Knight’s argument that it is uncertainty which determines the allocation of activity to the market or the firm; entrepreneurs have special judgmental skills which allow them to manage uncertainty. Coase (1937: 27) argues rather that these skills can be priced by market forces; whether production is organised by the firm or the market remains a matter of the relative costs of each at the margin.

Coase’s understanding of the limitations to knowledge corresponded to his critique of deductivism in mainstream economics. He criticised the way in which this approach adopted unrealistic assumptions and conducted analysis on an overly abstract plane – what he referred to as ‘blackboard economics’. In particular he criticised what he saw as the excessive mathematisation of economics, referring approvingly to Marshall’s position on the subject (Coase 1975, Medema 1994, pp. 139-41). Mathematics was useful as long as it was realist; this required the mathematics to fit the reality rather than the other way round.

Because of his realism, Coase was concerned for theory to start with observation. His methodology has been characterised therefore as drawing on a combination of induction, followed by deduction, in order to arrive at general hypotheses which would then be referred back to different real contexts. But, in an echo of our discussion of the Scottish tradition, Ghosh and Wang (2014) have taken this discussion of Coase’s methodology further by focusing on the role of observation, characterising his methodology as being abduction rather than induction. Indeed the important role of surprising observations as inspiring the ‘why’ question which motivated Coase’s theorising echoes particularly Smith’s (1795) discussion of the motivational role of ‘wonder’.

Coase’s methodological statements were misunderstood, notably by Posner (1993), who portrays Coase as being anti-theory (something he identified as a British characteristic). This misunderstanding corresponds to the low status ascribed to the Scottish tradition in applied economics, where applied economics is understood as antithetical to theory. It is clearly puzzling to think of Coase as doing anything other than theorising. Indeed Posner’s argument provoked a range of contributions on Coase’s methodology, led by Medema (1994). What Coase was arguing against was in fact not theory, but the dominance of deductivist mathematical formalism in mainstream theorising. Indeed Coase himself chastised American Institutionalism for being anti-theory (Wang 2003: 815). He was concerned for economics to become a hard science in the sense of building theory on observation (Coase 1999). Accordingly he repeated later Duncan Black’s

⁷ Although he did not discuss this explicitly, it seems that Coase’s notion of uncertainty was Knightian in the sense that full knowledge was available in principle, if not in practise (see Coase 1992: 719). This view is opposed to Keynes’s view that full knowledge was not available even in principle (Dow 2015).

accolade that he had achieved both realism and exactness (Coase 1995: 235). Latterly Coase was not even hostile to the extensive application of mathematical argument to theory:

My remarks have sometimes been interpreted as implying that I am hostile to the mathematization of economic theory. This is untrue. Indeed, once we begin to uncover the real factors affecting the performance of the economic system, the complicated interrelations between them will clearly necessitate a mathematical treatment, as in the natural sciences, and economists like myself, who write in prose, will take their bow. May this period come soon (Coase 1992: 719).

This statement marks a change from his earlier position on mathematics in implying support for a much more comprehensive mathematisation of economics. Indeed his theory *was* amenable to mathematisation. He took a static marginalist approach, with equilibrium a core concept; even his ‘dynamic’ approach was one of a shifting static equilibrium. His approach to theory therefore differed from the more evolutionary dynamic approach of the old institutionalists (and the Scottish tradition) which was only amenable in a limited way to mathematical formalism and in fact required the kind of pluralist approach Coase himself had earlier espoused (Medema 1994: ch. 7). It is perhaps critical that Coase does not seem to have been aware of Smith’s (1795) philosophy of science. Had he been aware, he would have been discouraged from conceiving of fully mathematising ‘the real factors affecting the performance of the economic system’ as being feasible, rather than some persuasive, but provisional, theorising drawing on a range of methods.

Coase therefore inhabited the rather ambiguous methodological ground of New Institutional Economics (Hodgson 1989, Rutherford 1994). For much of his career Coase was treated as an outsider to mainstream economics. Yet, once made methodologically tractable in mainstream terms, the idea of transactions costs was easily absorbed into mainstream theorising. While we have found many important parallels with the Scottish tradition, Coase’s static marginalist style of theorising ultimately lent itself to a very different methodological approach.

Indeed these apparent conflicts have a parallel in the different interpretations of Smith. The general equilibrium interpretation translates Smith’s abductive, pluralist theorising into deductive marginalist analysis which lends itself to mathematical treatment. Since we have concluded that Adam Smith himself was the route by which Coase was influenced by the Scottish political economy tradition, we conclude the discussion by considering more directly a comparison between Coase and Smith.

The early influence of his study of Adam Smith was clearly important and it is interesting to contemplate the reason that this influence was so strong. Coase may in fact have been drawn at a personal level to Smith because of similarities in their circumstances and demeanours. Both came to economics with new questions, drawn from experience, and were thus able to start theorising with a relatively clean slate. Both were solitary scholars, independent-minded and modest about their achievements. Coase (1977: 310) refers to Smith’s description of himself as a solitary scholar and his ‘independence of mind and liking for solitude’. He notes further Smith’s (1759) discussion of the need to rely on the cooperation of multitudes in the market, since sympathy only extends to one’s immediate circle. Finally, Boettke’s (2103) description of Ronald Coase as being ‘feisty, though always gentlemanly’ could equally be applied to Adam Smith. As Elzinga (1984: 577) put

it, Coase ‘must be seen as his own man, an archetype of the independent scholar. Not unlike Adam Smith, Coase has worked productively alone, drawing ideas from his reading and reflection, classifying facts through his grasp of economic theory.’

Conclusion

We have seen that Coase came to Dundee already under the influence of Plant’s teaching on Smith at LSE and motivated by the detailed knowledge of firms which he had built up during his time in the US. But the grounds on which he distanced himself from mainstream economic methodology hold much in common with the broader Scottish political economy approach which was still evident in Scotland during his time at Dundee. He encountered this approach in the course of his many exchanges with Duncan Black. But his circumstances and inclinations seem to have meant that he did not actively engage with the Scottish tradition during this time. This must count as one of the great missed connections in the history of economic thought. Had Coase been more thoroughly imbued with the Scottish tradition the tensions we have identified in his own methodological position might have been averted.

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