A Methodological Comparison of Ronald Coase and Gary Becker

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This short paper comparatively studies Ronald Coase and Gary Becker from the methodological perspective. Since Becker's analytical approach is known to be a very general one, when Becker's and Coase's analytical approaches are compared, it is natural to assume that Becker's approach will be the easy winner. This analysis shows, however, that the opposite turns out to be the case. Two criteria (generality and applicability) are used to make the assessment.

1. Introduction

A comparison of Gary Becker and Ronald Coase, at first glance, reveals many of their striking similarities and differences. On the one hand, both of them are Nobel laureates, both spent most of their academic careers at the University of Chicago, both have held positions outside of the Department of Economics, and both have made important contributions to areas beyond the traditional boundaries of economics.[1] On the other hand, one of them relies mainly on mathematics in reasoning whereas the other writes essays in beautiful prose, one vows to expand the domain

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1. Coase is a chair professor of the law school, and Becker has a joint appointment in the Department of Economics and the Department of Sociology. Coase (1992) has expressed the opinion that the influences of his works on legal studies have been immense, but that his influences on economics have been somewhat limited. For the impact of Becker on sociology, see the opinions expressed by the sociologists in Swedberg (1990).

of economics whereas the other cautions about such a tendency, and one is a downright American whereas the other has kept his "Englishness" long after settling down in the United States.[2] Going beyond these apparent similarities and differences and delving into the two scholars' analytical approaches for a comparison constitutes a much more challenging endeavor. This paper begins with a fascination for the rich food for thought such a comparison promises.

Specifically, I want to compare Becker and Coase from the methodological perspective. Besides intellectual curiosity, there are two reasons for such an attempt. First, by studying the issue we will better understand the similarities and differences of their analytical approaches, their contributions to economics, and economics itself. Secondly, Coase's papers are mostly essays with little mathematics, so even college students and the general public can read his works; meanwhile, Becker's inquiries about issues such as family, marriage, human capital, are part of everyone's experiences. Therefore, the distance between these two great economists and the general public is limited. To establish a link between economics and the general public, Becker and Coase are obviously candidates. In this paper, I will explore, from the methodological perspective, their respective relevance to the general public.

Two results emerge from this analysis. First, while economists generally believe that Becker's analytical framework is very general and can be applied to the analysis of practically all human behavior, I will demonstrate that, in fact, Coase's analytical framework promises greater generality. Secondly, it is more likely that the public will be able to understand, accept, and employ Coase's analytical framework; by contrast, they are not likely to understand or to accept Becker's analytical approach.

I will first illustrate Coase's and Becker's analytical approaches, and then I will employ two criteria to assess these approaches.

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2. Posner (1993b, p. 213) states, "More than any other economist in the history of the profession, with the possible exception of Bentham, Becker has insisted that the model of rational choice can be applied to all social behavior. (Notice that I have not even qualified this by saying all *human* social behavior.)" In comparison, Coase has been reserved about the expansion of economics into new territories. He states: "The reason for this movement of economists into neighboring fields is certainly not that we have solved the problems of the economic system; it would perhaps be more plausible to argue that economists are looking for fields in which they can have some success" (1978, p. 211). Concerning the "Englishness" of Coase, see Posner (1993a, pp. 204–5).

2. The Analytical Approaches

Unique to both Becker and Coase is the simplicity of their analytical approaches; in their tool kits, there are no fancy mathematics or flowery language.

Coase's Analytical Approach

Almost all economists, including Coase himself, believe that his contributions to economics are to the subject matter, as reflected by his influences on the fields of industrial organization and law and economics.[3] In fact, however, a unique and important analytical approach is implicit in Coase (1937, 1960).

Specifically, Coase's analytical approach is to identify a benchmark first and then use this benchmark as the reference point to analyze the particular issue in which he is interested. In Coase (1937), he takes the market mechanism as the benchmark and then examines whether an entrepreneur should form a firm or rely on the market mechanism in utilizing resources. Then he takes the market mechanism as the benchmark again and discusses the proper size of a firm. Similarly, in Coase (1960), he uses the condition of zero transaction costs as the benchmark and then explores how resources would be utilized both in this world of zero transaction costs and in the real world. Therefore, Coase's analytical approach can be summarized as setting a benchmark first and then making comparisons, or a "benchmark approach" for short.[4]

With respect to the proper domain of economics, Coase (1978, pp. 206–7) states: "What economists study is the working of the social institutions which bind together the economic system: firms, markets for

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3. Coase (1992, p. 713) states: "What I have done is to show the importance for the working of the economic system of what may be termed the institutional structure of production." See Posner (1993a), Medema (1994, chapter 7), and Williamson (1989, 1994) for evaluations of Coase.

4. Here I focus on Coase (1937, 1960) because these two articles are the most important of Coase's works, and because they clearly illustrate his analytical approach. The use of the benchmark approach by Coase, however, is not limited to these two articles; two other famous articles of Coase's also illustrate the technique. In Coase (1946), he uses Hotelling-Lerner's viewpoint about marginal cost pricing as the benchmark for his analysis. In Coase (1974), he uses the views of Mill, Sidgwick, Pigou, and Samuelson about the lighthouse as his benchmark and then draws on historical materials to illustrate that the views are deficient.

goods and services, labor markets, capital markets, the banking system, international trade, and so on." He concludes: "It is the common interest in these social institutions which distinguishes the economics profession."

Coase believes that economists should concentrate on the *economic* issues. Therefore, it comes as no surprise that Coase believes his own contributions are related to the subject matter; he seems unaware that he employs a unique analytical approach that has general implications.[5]

Becker's Analytical Approach

According to Posner (1993a, p. 207), Becker is "the greatest practitioner and exponent of non-market economics." To the study of issues such as marriage, family, crime, and human capital, Becker has made significant contributions, and has greatly influenced subsequent research on

5. Concerning Coase's analytical approach, Zerbe (1980, p. 90) expresses the opinion that "Coase's use of a zero cost world as *a basis of comparison* serves to emphasize this [that the external effects are not taken into account] because of transaction costs" (emphasis added). Similary, Schwab (1989, p. 1188) states that "Coase's major point on methodology ... remains valid." Schwab explains: "An advocate of intervention must *compare* the costs and benefits of a government solution with the private solution, and not presume that private imperfections imply that government intervention will improve things" (emphasis added). Although it is clear that the idea of a benchmark approach is implicit, but not explicitly identified, in their discussions of Coase (1960), I am arguing here that the benchmark approach reflects Coase's methodology in general. In addition, an interesting question concerning Coase's benchmark approach is its origin: was it Coase's own invention or did it originate with someone else? Although in Coase (1986) he expresses that he was greatly influenced by Arnold Plant, Plant's analytical approach is not the focus of the paper. In Plant's inaugural address at the London School of Economics (Plant, 1932), which is cited by Coase (1986) as representative of Plant's viewpoint, the focus is market mechanism and state intervention. Alternatively, a tentative, but plausible, explanation is that Coase conceived the benchmark approach from his initial training at LSE as a commerce student. In accounting, one of the courses taken by the commerce students, the students are taught various accounting principles and learn how to handle the accounting data by taking the priniciples as the guideline, in essence the benchmark. First learning and later teaching and writing on accounting, Coase came to have an intimate knowledge of the subject. (Medema, 1994, chapters 1 and 3) This is reflected in Coase (1938), in which he argues that economic concepts such as marginal costs, risk, and the factor of time should be adopted by the accountants to improve accounting practices, and the benchmark technique is implicitly employed throughout the article. Therefore, Coase's background as a commerce student may help explain his unique way of reasoning. It should be noted, however, that the essence of Coase's methodology requires more attention, as is evident from the remarks of Mäki (1993, p. 5) that "Much less work has been done on the methodological and conceptual foundations of the theories and approaches of ... Ronald Coase."

these issues. His own perception of economics, however, is focused on the analytical approach. In particular, Becker (1976, chapter 1) considers that his analytical approach has three major components: "the combined assumptions of maximizing behavior, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach as I see it" (p. 5).[6] I will refer to Becker's analytical framework as the "maximization approach" for short. Concerning the proper areas where his analytical approach can be applied, Becker argues in the following way: "The economic approach does not draw conceptual distinctions between major and minor decisions . . . or between decisions said to involve strong emotions and those with little emotional involvement" (p. 7). "I am saying that the economic approach provides a valuable unified framework for understanding *all* human behavior" (p. 14).

This arguably reflects Becker's great confidence in his analytical framework and its generality.[7]

In addition to his academic writings, Becker writes a monthly column for *Business Week,* starting from May 1985. The monthly column enables Becker to reach a much wider audience than Coase has ever achieved. Two interesting questions arise: First, does Becker employ the same maximization approach "relentlessly and unflinchingly" in his monthly column? Second, in the column articles, does Becker put more emphasis on the subject matter or on the analytical approach of economics? I will take up these two questions below.[8]

3. Interpretation and Comparison

I will employ two criteria to assess Coase's and Becker's analytical approaches. The first criterion is the generality; that is, how generally the

6. In Becker (1993), he slightly modifies his views about his approach; he now emphasizes both the concept of maximization and the relative increase in value of the element of time.

7. The title of the book Becker published in 1976 was *The Economic Approach to Human Behavior,* and the title of his Nobel lecture was "The Economic Way of Looking at Behavior." Notice the subtle change from "human behavior" to just "behavior." See also the quotation of Posner in note 2.

8. I thank Judge Posner for indicating that Becker's monthly column is an interesting aspect to be looked into.

analytical approach can be applied. The second criterion is the applicability of the analytical approach for the general public. Thus, the first criterion is relevant mainly to the economists and scholars in other social sciences, whereas the second criterion is more relevant to the general public.[9]

The reason for adopting the first criterion is fairly straightforward; it is based purely on theoretical considerations. The reasons for adopting the second criterion may not be straightforward, so some explanations are required. I offer two motivations for adopting this criterion. First, economists believe that economics implies a particular way of thinking and that a major goal of economic education is to enable the students to think like an economist;[10] thus, both views indicate that there is a potential link between economics and the general public. Second, economists also believe that, by making proper suggestions to the policy makers, they can help improve the efficiency of resource utilization. This implies, however, that a more fundamental way to improve the efficiency of resource utilization is to improve the decision-making quality of the general public and not just that of the decision makers. As such, it is an important task for economists to provide the general public with a sound analytical framework so that they can think like an economist. Consequently, it is meaningful to examine Becker's and Coase's analytical approaches and see how applicable they are for the general public.[11]

Generality

Logically speaking, Coase's benchmark approach is more general than Becker's maximization approach. Alternatively put, by softening Becker's

9. These are obviously not the only criteria possible. For instance, the depth of the analysis on particular issues can be used as an additional criterion. The two criteria in the texts, however, seem to best illuminate the differences between Becker and Coase.

10. Taylor (1995, p. 6) states, "Economics is a way of thinking;" the title of the first chapter of Frank (1991) is "Thinking Like an Economist;" Medema (1994, p. 148) states, "Economics has now become a view of the world." For the idea that economists can help improve the quality of decision making in public policies, see Stigler (1965).

11. In a discussion on Coase, Elzinga (1984, p. 572) argues that "the truly influential economist is one who affects how economists view fundamental problems in their own discipline and affects how non-specialists come to view the world of economic reality." It should be clear that the criteria of generality and applicability correspond in spirit to the criteria Elzinga emphasized. Alternatively, it is also clear that both Coase and Becker satisfy Elzinga's criteria, and the aim of the present paper is to further examine, comparatively speaking, to what degrees they satisfy the criteria.

restrictive framework, we can reach Coase's framework; but starting from Coase's approach, it is difficult to reach Becker's framework, unless more restrictive elements are added along the way. Therefore, Coase's analytical approach is more general than Becker's. In addition to this purely logical reason, however, I can offer a few other considerations.

First, since the focus of Becker's attention is human behavior, the idea of stable preferences is a prerequisite for a meaningful analysis. As such, the idea of stable preferences is an important component of his rational choice framework. By contrast, Coase needs only to identify a clear benchmark for his subsequent analysis; for him, the idea of stable preferences is dispensable. Secondly, utility maximization is a strong description, or assumption, concerning human behavior, and economists such as Simon (1982) and Solow (1997), among others, have expressed reservations about it.[12] Coase's analytical framework does not require the concept of maximization.

Finally, the concept of equilibrium: For Becker, on the one hand, the concept helps to describe the properties of a stable condition, and, on the other hand, it facilitates doing comparative static analysis and deriving testable hypotheses. In comparison, Coase is mainly concerned with analyzing how the institutional structure of production affects firms and human beings; thus, the idea of equilibrium is not a critical concept in his analysis.[13] I can use a simple example to illustrate their methodological differences: it is well known that Coase's works (1937, 1960) have exerted great influences on the fields of industrial organization and law and economics; however, it is not clear how Becker's framework can be employed directly to deal with the issues discussed in the two famous Coase articles.

The methodological differences between Coase and Becker are helpful in explaining why Coase has made a significant impact on the legal scholars. For one thing, the legal scholars may be suspicious of the concepts implicit in the rational choice model, such as rationality, maximization,

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12. Solow (1997, p. 231) remarks that "households and firms are heterogeneous, satisficers at best, and driven by all sorts of motives anyway."

13. Posner (1993a, p. 206) states: "The basic theory [of Coase's] does not (or at least pretends not to) include the concept of maximization." Specifically, "It may not include the concept of equilibrium.... People are not in fact maximizers, prices do not in fact equal marginal cost, and markets are never in equilibrium."

and equilibrium; by contrast, Coase's benchmark approach is intuitive, is simple, and can be applied easily. On the other hand, as the benchmark approach implies a reference point, a contrast, and a comparison, the legal scholars have in a sense been employing something similar to the benchmark approach in their work all along. For the legal scholars, in dealing with the issues they face, are customarily using their ideological stance, whatever it may be, as a benchmark, and then employing various contrast and comparisons to draw their conclusions.[14] In this light, it seems quite natural that Coase is immensely popular within the legal profession.[15]

In summary, as far as generality is concerned, Coase's framework is more general than Becker's.

Applicability

Becker's works on nonmarket behavior greatly expand the domain of economics. In particular, Becker has developed concise models to capture the salient features of nonmarket phenomena. For instance, in analyzing discrimination, he uses "the discrimination coefficient" to summarize all underlying reasons for discrimination; in analyzing social interaction, he introduces the idea of "social income" to summarize both monetary and nonmonetary (psychological or spiritual) income; in analyzing the allocation of time, he employs the concept of "nonworking time" to summarize the amount of time that is not devoted to generating monetary income.[16] Therefore, Becker departs from the traditional analysis that focuses on the goods and services of the market, and incorporates summary variables in his model to reflect the seemingly nonmeasurable, but important, elements of human behavior. Although some economists and sociologists have criticized this approach as too broad to capture the delicate factors that affect human behavior, Becker's contributions are evident: he was the first economist to bring into a formal analytical framework those factors that are abstract and nonmeasurable but that everyone considers important.

14. It is interesting to note that, in commenting on traditional legal studies, Posner (1985, p. 104) states: "The question arises, in what *frame of reference* should that discretion be exercised? Pragmatic? Utilitarian? Christian? Darwinian? Rawlsian? Nozickian? I suggest that wealth maximization provides the most acceptable *frame of reference*" (emphasis added).

15. For other possible reasons why lawyers listen to Coase, see Schwab (1989).

16. See Becker (1965, 1974; 1976, chapter 2).

In short, he demonstrates vividly how powerful the rational choice model of economics can be.

But this may also be the potential weakness of his analytical approach. Not all economists and sociologists appreciate his rational choice approach in analyzing issues like those concerning marriage and family.[17] Although this is a judgment from the perspective of academic research, when Becker's approach is related to the general public's ways of thinking, the discrepancy is conceivably even larger. It is not likely that the general public will perceive the problems of marriage, family, human capital, and others that they face by using the concepts of maximization and equilibrium. By contrast, Coase's approach is the more attractive one. On the one hand, the benchmark approach is simple and clear; on the other hand, it is more neutral, in the sense that it does not emphasize the pursuit of a certain value, as implied by the concept of maximization. I can also use an example to illustrate the differences in applicability concerning Becker's and Coase's approaches: in reviewing a submitted article, a referee would most likely employ Coase's benchmark approach in the thought process; by contrast, it is difficult to imagine that a referee would employ Becker's maximization approach to determine a recommendation.

Becker's monthly column in *Business Week,* however, introduces an interesting and somewhat complicating factor into the analysis. As suggested above, two issues should be examined, one concerning the emphasis and the other concerning the analytical approach. Generally speaking, the emphasis of the articles appearing in the column has been on the subject matter. Becker uses the column to educate the readers, especially the policy makers. A few titles of the recently published articles will reflect the flavor of his column: "The Feds Should Let Microsoft Be Microsoft" (1997c), "Housing Projects and Rent Control Should Crumble" (1997b), and "How Uncle Sam Could Ease the Organ Shortage" (1997a).

Among the column articles, it is difficult to identify a single analytical approach that is employed consistently, but the maximization approach is definitely *not* used relentlessly and unflinchingly. To be more specific, in fact, a case can be made that Becker is essentially employing the benchmark approach in writing the column articles. In particular, he uses the general principles of microeconomics—competition, deregulation, private

17. See Sen's and Solow's comments in Swedberg (1990, chapters 14–15).

choices, nonintervention, and so on—as the benchmark, and then describes how the actual situation departs from the benchmark and what can be done. For instance, in the article about Microsoft, the message is that the market mechanism is more efficient in allocating resources; in the article about housing projects and rent control, the focus is on the incentive effect; in the article about organ shortage, the task is to introduce price mechanism to deal with excess demand. Therefore, in communicating with the general public, Becker is using not the maximization approach but Coase's benchmark approach!

In summary, given the characteristics of Becker's and Coase's approaches, Coase's benchmark approach is more likely to be accepted and utilized by the general public.

4. Conclusion

It is well known that Coase has made significant contributions in the fields of industrial organization and law and economics, but these are just two research areas in economics and as such are quite removed from the daily experiences of the general public. In comparison, Becker employs a powerful set of analytical concepts and explores all aspects of human behavior, and the problems of marriage, family, social interaction, and similar issues are part of the daily lives of the general public. Therefore, it seems that concerning both the generality and the applicability of their analytical approaches, Becker's approach would be the more general and applicable one.

The analysis above, however, points to a different assessment. The benchmark approach of Coase is more general analytically and is more likely to be accepted and used by the general public. By contrast, although Becker's maximization approach has contributed significantly to the advances of economics, it is not as general analytically or as applicable to the general public. But Becker's monthly column in *Business Week* adds an interesting element to a comparison of Coase and Becker. With the monthly column, Becker has the opportunity to reach a vast audience, but he uses essentially Coase's benchmark approach in writing articles for his column. This supports the conclusion that Coase's analytical approach is more general and more applicable; moreover, it casts doubt on Becker's claim that the maximization approach can be used relentlessly and unflinchingly.

Given this finding, I will conclude by stating a few implications of my analysis, and the statements will in a sense correspond to the motivations put forth in the beginning of the paper. First, economists generally emphasize the contributions of Coase on the subject matter, but his simple analytical framework of the benchmark approach does not seem to have attracted much attention. Therefore, a shift of attention is suggested. Second, Becker's maximization framework is concise and powerful, but is not likely to be acceptable to the general public. To make his framework more accessible to the general public, some adjustment is obviously needed—in the direction of making it softer and less mathematical. In addition, in his nonacademic writings, if more emphasis can be placed on demonstrating clearly the benchmark used in the analysis, as well as on why he adopts such a benchmark, then it is more likely that the general public will come to appreciate economics not just as a subject matter but more importantly as an analytical approach. Third, Posner (1997, p. 14) remarks that "the heart of economics is insight rather than technique." As far as Coase and Becker are concerned, they have in their command both insight and technique. Therefore, to illustrate from all angles their techniques, as well as their insights, is not only a valuable exercise for economists, but also an important service to the general public—the ultimate audience of the economist-preacher.

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