Coase and the London School of Economics in the 1920s-1940s

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1. Introduction

To begin with a brief summary: Ronald Harry Coase came to LSE in 1929 to study for the B. Com. As he had already passed the intermediate examinations for the degree as an external student while still at Kilburn Grammar School he was able to take and pass the Final examinations a year early in 1931. However, University of London regulations required a full-time student to be ‘in residence’ for three years, so to fill in the year before he could formally graduate, Coase spent the time by being ‘in residence’ in the United States on a travelling scholarship interviewing businessmen. Upon his return to the United Kingdom in 1932 he taught in Dundee for two years. He then moved to Liverpool University for a year, before returning to a teaching post at LSE in 1935. In 1940 he left LSE on war service, returning in 1946. He left LSE for the United States in 1951.

The structure of the rest of this chapter is as follows: Section 2 will provide a brief account of the founding and development of the LSE, stressing those aspects that were important for Coase’s experience at the School. The third section will consider in more detail Coase’s experience at LSE in terms of his development as an economist and his research. The fourth section of Conclusions will weigh up the impact of LSE on Coase and Coase’s impact on the LSE. The chapter ends with a brief Epilogue.

2. The Foundation and Development of the LSE

Like many late-Victorian institutions, the foundations of the London School of Economics and Political Science (LSEPS) rested on strong moral principles. Sidney and
Beatrice Webb were Socialists and in 1887 he explained his understanding of Socialism as follows:

Socialism is a statement of the principles of social organisation and is, I think, compatible with any ethic which recognises the existence of the social organism, and acknowledges human welfare as at least one of human ends. But it is something more than Christianity or any other ethical system, in that it is the incorporation of positive knowledge of the laws of sociological development, and the deduction therefrom of concrete principles of social organisation. (Quoted in Harrison (2000), 56).

The Webb’s brand of Socialism was of a Fabian flavour and politically it was to be achieved not through revolution, but through education: ‘knowledge of the laws of sociological development’ was to be derived through study and research and it was desirable to have an institution that concentrated on the analysis of society to carry out this programme. Webb’s attitude towards research was outlined in a conversation he reported having in 1895 with Sir Owen Roberts, the Chairman of the Chamber of Commerce in the hope of getting his support for the School:

I said that, as he knew, I was a person of decided views, Radical and socialist, and that I wanted the policy I believed in to prevail. But that I was also a profound believer in knowledge and science and truth. I thought that we were suffering much from lack of research in social matters, and that I wanted to promote it. I believed that research and new discoveries would prove some, at any rate, of my views of policy to be right, but that if they proved the contrary I would count it all the more gain to have prevented error, and should cheerfully abandon my own policy. I think that is a fair attitude. (Quoted in Dahrendorf (1995), 19).
The opportunity for founding such an institution became a possibility when, in early August 1894 a group of Fabians, including Sidney Webb, learned that Henry Hutchinson, a member of the Fabian Society, had left about £10,000 to the Society to ‘apply … to the propaganda and other purposes of the said Society and its Socialism, and towards advancing its objectives in any way they deem advisable’ (Caine (1963, 18). Webb persuaded his colleagues that rather than using these funds to pay the expenses of travelling lecturers, they should be used as seed corn to raise further funds to establish a ‘London School of Economics and Political Science’ (LSEPS).

Once the decision was taken, things moved swiftly: by 1 April 1895 W.A.S. Hewins had been appointed Director of the new LSEPS, in July 1895 a Printed Prospectus for the LSEPS was published and on 10 October 1895 the LSEPS opened with more than 200 students enrolled.

As the new institution did not have a Royal Charter, it was unable to offer courses leading to the conferment of a degree. Instead the Prospectus offered ‘public lectures and classes, with “special classes arranged as a three years’ course of study, concluding with a research course”’. The Prospectus explained that

It is not proposed to prepare students especially for any examination, but the lectures and classes already arranged will be found useful for candidates for the following public examinations among others, viz. Civil Service (Class 1 and Indian). Council of Legal Education, Institute of Bankers, Institute of Actuaries, London University (Mental and Moral Science), London Chamber of Commerce (Commercial Education). (Prospectus for 1895, 3).

Graham Wallas later described the students attending that year as “mainly of the type to which I had become accustomed in the University Extension movement—a few
ambitious young civil servants and teachers, and a few women of leisure interested in the subject or engaged in public work.” (Hayek (1946), 8). Many of these students were part-timers who could only attend in the evenings and evening teaching continued to be important at LSE for many years.

The speed with which the new School had opened allowed little time to recruit staff and the programme for the opening session involved a mixture of courses that would provide Sidney Webb’s programme of research and short courses that were offered by those sympathetic to the foundation of the School. In the first category there were two developments of note: A.S. Bowley began teaching courses in Statistics and H.S. Foxwell offered a course of twenty lectures with the title ‘The History and Principles of Banking in England’.

In the second category one might include the three Public Lectures provided by the Rev. W. Cunningham, Tooke Professor of Economic Science and Statistics at King’s College, London on the subject of the ‘Economic Effects of Alien Immigrations’. Another short course of four lectures on ‘The History of Rating’ was provided by Edwin Cannan. Gradually a more structured programme of lectures and classes emerged, with an emphasis on teaching for various professional examinations. This continued until there was a major reform in the structure of the University of London in 1898.

The University of London was founded in 1836 as an institution to examine and award degrees, but it was not responsible for providing any teaching, which was initially provided by King’s College, London and University College, London. In 1858 candidates taught at other institutions were allowed to sit University of London examinations, with the result that teaching became widely dispersed among many
institutions. Over time dissatisfaction developed among teachers over the lack of regulation exercised by the University of London and this led to Parliament passing the University of London Act in 1898. Under the Act the University was given the responsibility for monitoring course content and academic standards (see Harte (1986) for a detailed discussion). The effect of the Act on LSE was by 1900 it was a School of the University of London, with senior members of the staff now ‘Appointed Teachers in the University of London’ and members of Boards of Studies that determined examining and teaching. There were three undergraduate degrees on offer: a B.A, a B.Sc. (Econ.) and an Ll.B.

An important new member of the staff was Hugh Dalton (1887 – 1962), a student of Maynard Keynes and a future Chancellor of the Exchequer, who joined the staff in 1913 and, returning from WW1 in 1918, taught at LSE until 1936. He would have crucial role to play in the 1920s.

Two important events occurred in 1919. First, the Directorship of the School became vacant and after the post was offered to and declined by J.M. Keynes, William Henry Beveridge (1879 – 1963) was appointed and held the post until 1937. The second event was the establishment of a new degree, the Bachelor of Commerce (B.Com.) Degree.

**The Bachelor of Commerce (B.Com.) Degree.** As the name suggests, this degree was meant to offer a more commercial focus than the existing B.Sc.(Econ.) degree. For the examinations at the end of one-year Intermediate programme students had to study courses in Economics, Banking, Currency, Trade, Geography, two modern languages, but now had options to study Chemistry, Physics, Geology, Botany, as well as English and Commercial Art. The Regulations helpfully suggested that candidates preparing for Trades involving a knowledge of the products and processes of manufacture or any of
the metal industries should choose one of the science subjects, those preparing for
Journalistic, Editorial and Publishing work should choose English, while those
intending to take Commercial Art should consult the aptly named Professor Selwyn
Image, a former Slade Professor of Fine Art at Oxford University.

**LSE in the 1920s**

During this period the Economics Department experienced a number of important
arrivals, departures and one return that are relevant to Coase’s experience at LSE. First,
Lionel Robbins (1898 – 1984) arrived at LSE after serving in the artillery in World War
One and was a student from 1920 to1923 studying for the B.Sc.(Econ.) Second, Arnold
Plant (1898 – 1978) was a student from 1920 to 1923, during which time he managed to
prepare for the B.Com.as an external student, while simultaneously studying for the
B.Sc.(Econ.) as an internal student. He passed the B.Com. in 1922 and obtained First
Class honours in the B.Sc.(Econ.) in 1923. They were good friends, as Robbins notes in
his autobiography (Robbins 1971, p. 91):

> There was a group of us, in different years in different subjects, which met for
energetic discussion day after day in the common room or the small teashops round
Portugal Street and Clare Market. Frederic Benham, Sydney Caine, Jacques
Kahane, G.L. Mehta, Arnold Plant, George Tugendhat, lively spirits with the same
relish as I had for the ethos of L.S.E. and all it stood for an each with an individual
contribution to make.

Both attended the main course in Economic Theory, which was Edwin Cannan’s
‘Principles of Economics’. Cannan had been educated at Oxford and so was not one of
Marshall’s students, with the result that he took a more historical approach to the
teaching of economics. His course was spread over two years, with one year devoted to
‘Production’ and the other to ‘Distribution’. Cannan’s teaching had a considerable effect on both of them and, according to Coase (1994, p. 177) in the case of Plant “The teacher who had most influence on him was Edwin Cannan, the professor of political economy, whose views and commonsense approach to economic analysis and economic policy were to be reflected in Plant’s own work.” An evaluation of the course and Cannan’s qualities as a teacher is given in Robbins (1971, 83-86), where after some criticisms of Cannan’s teaching style, he concludes:

He was a fine economist: he gave one a sense of the sweep and the power of the subject and its relevance to human happiness. He was also – what surely all good teachers should be – a good moralist, both by example and precept: you could not sit under Cannan without learning a proper regard for the true goods of life, the virtues of family affection, civic tolerance and compassion, and a contempt for the false idols, especially nationalism and all forms of exclusive sects. (p. 86)

After graduation Plant left LSE for South Africa, where at the age of 25, he was appointed Professor of Commerce in the newly founded chair at the University of Cape Town. He remained there until 1930. Robbins had a more varied experience. Thanks to support from Dalton, he spent 1923-24 as Beveridge’s research assistant, helping him revise the statistics for a second edition of his Unemployment: A Problem of Industry. In 1924 – 25 he had a Temporary Lectureship at New College, Oxford covering for a Fellow who was taking sabbatical leave. For 1925 -26 he returned to a Lectureship at LSE, but during the year was offered a Fellowship at New College, which he accepted. He moved to Oxford in 1926 and taught there until he was recalled to LSE in 1929.

J.R. Hicks arrived at LSE in 1926, the year in which Cannan retired. His retirement was marked by a Festschrift (Gregory and Dalton (1927)), to which Plant
contributed a chapter on ‘The Relations between Banking and the State in the Union of South Africa’ and Robbins one on ‘The Optimum Theory of Population’. In it he sided with Beveridge in a disagreement over the relationship between unemployment and over-population, which they denied and the views of Maynard Keynes:

In a society such as our own, where, owing to the existence of trade unions and other influences, the short-run plasticity of wage rates is imperfect, it is conceivable that a tendency to diminished real income due to over-population might show itself for a time in an increased volume of unemployment, and there can be little doubt that this is what Mr. Keynes and his friends have in mind when they put this view forward. But while theoretically it is possible for such conditions to exist, it is surely a matter of the utmost difficulty to identify them in practice. (p. 127)

Cannan’s replacement was Allyn Abbot Young (1876-1929). Young was a leading Harvard economist with reputation for being a scholar with a wide ranging knowledge of economics, but why was he chosen? Blitch (1995) reports that

There is no record of why Beveridge chose to offer the new chair to Allyn Young. Young was well-known to the British delegation at Paris many of whom were academics. Harold Laski, Professor of Political Science at the London School had lectured at Harvard from 1916 until 1920, when he joined the faculty at the London School. He knew Young and had been on the Harvard faculty when the first offer to Young had been made in 1919. The recommendation may have come from him. Sir Josiah Stamp (1880-1941), English economist and statistician, who was vice-chairman of the Board of Governors of the School at the time, had been a member of the original Dawes Committee, and no doubt was familiar with
Young’s articles on the Dawes Plan. In any case, Beveridge wrote to Young in the spring of 1926 asking permission to put his name before the Board of Governors as a candidate for the vacant chair. (pp. 147-8)

In his *Report on the Work of the School, July, 1926—June, 1927* the Director, having noted a large exodus of staff to other institutions, including Lionel Robbins to a Fellowship at New College, Oxford, pointed out that there were imports as well as exports and concluded that “It is with peculiar pleasure that I have to record among the imports already visible to redress our heavy outward balance, the prospective arrival of Professor Allyn Young, of Harvard, appointed in succession to Professor Cannan to take up the first full-time (though not yet endowed) Chair of Political Economy in London. This appointment is welcome, not only as securing for London and for the School a man of world-wide reputation as a teacher of Economics, but as bringing into yet closer union the study of our science in America and in Britain.” (*Calendar for 1927-28*, 10-11)

Whether any closer union might have developed from Young’s appointment remains an unknown as he caught influenza in late February 1929. This rapidly developed into a virulent form of pneumonia and he died on 7 March 1929 at the age of 52 and it would be pure speculation to suggest what he might have achieved had he stayed at the School.\textsuperscript{vii}

Allyn Young’s sudden death meant an urgent need to find a replacement.\textsuperscript{viii} Both Cannan and Dalton supported Robbins for the post and this was agreed, despite his relative youth and small number of publications. However, there was a compromise: Robbins was given an ordinary chair of Economics and not Young’s Professorship in Political Economy, which was kept vacant for a future appointment should a suitable
candidate appear. But as Robbins noted with some satisfaction in his autobiography (Robbins (1971), 122) “The Young chair was never filled.”

**LSE in the 1930s**

Arnold Plant arrived back at the LSE to occupy the newly created Chair of Commerce and to take charge of a new postgraduate Diploma in Business Administration. In addition to his teaching responsibilities in Commerce and Business Administration he was also involved with Robbins (and later with Hayek) in the running of what came to be known as ‘the Robbins Seminar’.

The difference in the teaching of economics between Cambridge, with its emphasis on Marshall’s economics, and LSE, where Cannan had taken a broader, more historical approach, was further extended by Robbins. All students in the B.Sc.(Econ.) were required to show sufficient competence in two foreign languages to be able to translate passages in economics and Robbins had obtained a distinction in German. He was encouraged by Theodore Gregory to explore Austrian Economics and became “considerably influenced by von Mises” (Robbins 1971, 107). This interest led to an invitation to Fritz Hayek to visit LSE in January 1931 to deliver a series of public lectures. These lectures were a great success to the extent that even Beveridge was sufficiently impressed to suggest Hayek be offered the vacant Tooke Chair of Economic Science and Statistics, which he accepted.

In 1932 Robbins published *An Essay on the Nature and Significance of Economic Science* (Second Edition 1935), in which he criticised a variety of definitions of the subject matter of economics, including Cannan’s that “The aim of Political Economy is the explanation of the general causes on which the material welfare of human beings depends”. In place of these definitions Robbins suggested that
“Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.” (Robbins (1935), 16). For Robbins, economics was a deductive subject:

The propositions of economic theory, like all scientific theory, are obviously deductions from a series of postulates. And the chief of these postulates are all assumptions involving in some way simple and indisputable facts of experience relating to the way in which the scarcity of goods which is the subject-matter of our science actually shows itself in the world of reality. (p. 78).xii

If empirical evidence was to play any role it would be to test the ‘applicability’ of the assumptions and verify their relevance in a particular context and not to ‘test’, in the sense of ‘falsify’, the theories themselves.xiii

The growing theoretical austerity in the Economics Department led to friction between Robbins and Beveridge: Beveridge thought economics should be an inductive subject and he showed increasing hostility towards what Robbins was doing. There was increasing tension between Beveridge and the academic staff over his growing tendency to allocate the funds he was attracting to the School from donors, such as the Laura Spelman Rockefeller Foundation to his own pet projects, such as a Chair in Social Biology.

In addition to these difficulties within LSE, tensions began to develop in relations with some Cambridge economists. In July 1930 Robbins was invited by Keynes to join a small committee of the Economic Advisory Council, but in the event, Robbins disagreed so strongly with proposals to increase public expenditure during the slump and to introduce tariffs and end free trade that he demanded to be allowed to produce a minority report, which led to considerable personal friction with Keynes.
More serious theoretical disagreements developed between Hayek, Robbins and some others at LSE and Keynes and his followers at Cambridge, which culminated in the publication of Keynes’s *General Theory* in 1936. However, not all economists at LSE agreed with Hayek and Robbins and this led to some tensions within the Economics Department.

The decade ended with the outbreak of the Second World War and the move of a much-reduced LSE from its London home to temporary accommodation at Peterhouse College, Cambridge.

**LSE in the 1940s**

Initially the wartime arrangements were complicated by the fact that while the reduced number of full-time LSE students were now based in Cambridge, there were still a number of part-time student to be taught in London. This continued through the 1941-42 session, after which time teaching was concentrated in Cambridge. As the British government marshalled its resources for the war effort, fourteen LSE economists were summoned to the cause. Robbins became Director of the Economic Section in the Cabinet Office and played a major part in supporting Keynes in the Bretton Woods negotiations. Given the exodus of so many staff, LSE and Cambridge shared teaching and courses between their undergraduate degrees.

In 1946 the School returned to Houghton Street and many of those who had left for war duties returned, including Coase. In addition to Robbins, Hayek and Plant, there were new professors in Economics: James Meade and Richard Sayers filled the chairs vacated by Frederic Benham and Denis Robertson and there were new chairs for Henry Phelps Brown (Labour Economics), Frank Paish (Finance) and Ronald Edwards (Industrial Economics).
3. Ronald Coase at LSE

Coase came to LSE in October 1929 to study for the B.Com. degree. The teacher who impressed him most was Arnold Plant. Plant, via Edwin Cannan, provided him with a link to Adam Smith and the ‘invisible hand’.

Two books he discovered at LSE had a great influence on him: “To Frank Knight’s Uncertainty and Profit Coase owes his enduring interest in economic organizations and institutions. Philip Wicksteed’s Commonsense of Political Economy initiated Coase’s uncanny ability to analyse constrained choices without recourse to higher mathematics.” (Cheung (1998), 455). Among his fellow students was Abba Lerner, whom Coase liked and got on well with, reporting many interesting discussions.

As he had already passed the intermediate examinations as an external student while still at Kilburn Grammar School, he was able to pass his Final examinations a year early in 1931. University regulations required three years ‘in residence’ before his degree could be awarded and he obtained a Sir Earnest Cassel Travelling Scholarship to be ‘in residence’ in the United States. He used his time there interviewing business men and finding out how firms actually operated. During this trip he began to formulate the ideas that led to his article ‘The Nature of the Firm’.

Upon his return to the United Kingdom, with a recommendation from Arnold Plant, he taught at the newly founded Dundee School of Economics and Commerce at the University of Dundee in 1932-34, where he had an opportunity to develop his ideas on the nature of the firm in lectures. He also began to read the economics literature and was excited by the work of Edward Chamberlin (Theory of Monopolistic Competition).
and Joan Robinson (*The Economics of Imperfect Competition*). From Dundee he went to the University of Liverpool for the 1934-35 session, where he was less content, as he had to teach Banking and Finance, subjects about which he neither knew nor cared very much.

Coase’s was away from LSE between 1931 and 1935, but it was not a complete break and the link he maintained with Ronald Fowler was particularly important, as he explains (Coase (1994), 208-9):

In the United States, I worked under the supervision of Plant, and while there, I had a long and full correspondence with my friend and fellow student, Ronald Fowler, who had receive an appointment in the commerce department and this kept me informed of developments at LSE. While at Dundee and Liverpool, I spent my vacations at LSE, collaborating with Ronald Fowler in a study of the pig cycle, and knew generally what was going on. However, I did not attend the seminars which were held at LSE during the period 1931—35.

He returned to LSE in 1935 as an Assistant Lecturer and his initial lecturing was to replace teachers who had left LSE on existing courses. Hicks moved to Cambridge in 1935, so Coase replaced him to give a series of eight lectures on ‘Problems of Monopoly’. He also moved into the study of a new area of economics. Harold E. Batson had given a course of lectures on ‘The Economics of Public Utilities’, but in 1935 he moved to a chair in Social Science at the University of Cape Town and Coase and Ronald Fowler took over the teaching of this course. Coase knew little about this subject, so he began to study it in typical Coasian fashion by making detailed historical studies of a number of British public utilities, including water, gas, electricity and the Post Office. He continued teaching these courses until the School moved to Cambridge

Coase’s publications during this period reflect his growing interests: in addition to ‘The Nature of the Firm’ (1937a), there are articles on Duopoly (1935), Monopoly Price (1937b) and the Post Office (1939). There were also four articles written with Ronald Fowler on the Pig-cycle. In addition, he was involved with Arnold Plant, Ronald Fowler, Ronald Edwards and others in some efforts to persuade accountants to look at costs in terms of ‘opportunity’ cost rather than simply manipulating balance-sheet data. To this end, Coase published twelve articles in the Accountant from 1 October to 17 December 1938 under the title ‘Business Organization and the Accountant’. These were published in Solomon (1952) and a shortened version appeared in Buchanan and Thirlby (1973).xxv

It was suggested above that the dispute between Hayek and Robbins at LSE and Keynes and his followers in Cambridge figure prominently in many of the recollections of LSE economics in the 1930s. Within the LSE there was also a debate between those who argued for state planning and those who questioned its efficiency in the absence of market prices.xxvi Coase grew increasingly concerned with arguments in favour of marginal cost pricing with government subsidies and this led eventually to his articles proposing an alternative of multi-part pricing (Coase (1946a, 1947b)).xxvii

Coase moved up to Cambridge with the School and taught there initially. Then in 1940 he began a long period of war service: in 1940-41 he was in the Statistical Office of the Forestry Commission; from 1941 to 1945 he was Chief Statistician in the.
Central Statistical Office at the Offices of the War Cabinet and in 1945-46 he was Representative in Washington of the Central Statistical Office.\textsuperscript{xxviii}

Coase returned to LSE in 1946 and his teaching picked up from where it had been interrupted by the war\textsuperscript{xxix} and he taught a 25 lecture course on ‘The Economics of Public Utilities including Transport’.

In June 1946 Coase proposed to Robbins that in the 1946-1947 Session the Robbins Seminar should be devoted to The Theory of Public Utility Pricing. His proposal was that the seminar should be centred on some actual case, “but that the requirements for such a case are formidable: (1) It should be important, so that we should not feel that in learning about it, we were wasting our time. (2) It should be interesting, so as to hold the attention of the seminar. (3) It should contain within itself the main problems in the economics of public utilities. (4) Detailed information should be available so that we could start with a knowledge of the basic information and readily obtain such supplementary information as our discussions of theory show to be relevant.” (BLPES: ROBBINS/4/1/4). It is likely that the theoretically-minded members of the seminar would have agreed to the first three conditions, but might have seen the fourth as being of less importance. The case he suggested was a study of the Tennessee Valley Authority and this was agreed. In total 18 papers were presented in the seminar by students\textsuperscript{xxx}, with members of the staff, including Lionel Robbins, Frederic Benham, Friedrich Hayek, Arnold Plant, Nicholas Kaldor and Ronald Coase.\textsuperscript{xxxi}

He published a number of important articles on different aspects of pricing (Coase 1946b and 1947a), public utilities (Coase 1947c, 1948 and 1950b) as well as a major study of the BBC (Coase 1950a).
As the 1940s drew to a close, Coase became dissatisfied with life in Britain and he considered migrating to the United States: “What prompted me to take this step was a combination of a lack of faith in the future of socialist Britain, a liking for life in America (I had spent part of 1948 there studying the working of a commercial broadcasting system), and an admiration for American economics.” (Coase (2009), 199)

When Coase applied for a Chair at the University of Buffalo, Robbins provided a very positive reference. On 22nd December 1950 he wrote to Ralph C. Epstein, the Chairman of the Economics Department at Buffalo:

I am afraid I have nothing but good to say of Mr. Coase, either as a scholar, a teacher or a colleague. He is generally regarded in this country as among the top two or three people who have not yet obtained senior professorships and, speaking in confidence, I may tell you that had he been intending to stay in this country, we should certainly have given him a Chair here.

In my judgement, he has a combination of qualities which render him quite outstanding in his generation of economists. He has a firm grasp of theory and experience in teaching it. He excels in research in the applied field and he has an independence of mind and originality of approach which I am sure will lead to the production of more works which still further enhance his present reputation, already well established by the publication of numerous articles and an extremely substantial book on the history of the broadcasting monopoly in this country.

I write with real regret since I regard his work here as of pivotal importance in the transmission of the School of Economics tradition, and I know that it will be a great grief to all his colleagues should he decide to seek a senior appointment elsewhere. (BLPES: ROBBINS/4/1/4)
Coase obtained the post, moved to the United States and thus brought to an end his formal connections with the LSE.

4. Conclusions

To conclude one might ask what, on balance, were the net benefits Coase obtained from the time he spent at LSE and, to balance the equation, what were the net benefits LSE obtained from having Coase there as a student and a member of the staff?

From Coase’s point of view the answer seems clear, as in many publications he has been generous in his appreciation of the support he received at LSE, particularly from Arnold Plant. He has suggested that without his visit to the United States while he was still a student ‘The Nature of the Firm’ might not have occurred to him then. However, such was his originality, one suspects that had he followed some parallel non-LSE life he would still have made a major intellectual contribution somewhere.

The case for the benefits to the LSE is more difficult to identify, as that institution, like most others at the time, failed to recognise his true ability, even though he was there from 1935 to 1940 and from 1946 to 1950. For example, the reference that Robbins wrote for Coase in his application to the University of Buffalo that was quoted above is very positive, but it is also quite impersonal: it does not actually say anything about his publications or contributions to economics.

The citation for the Sveriges Riksbank “Nobel Prize” in Economics listed two key articles: ‘The Nature of the Firm’ (1937) and ‘The Problem of Social Cost’ (1960). The first was published in Economica, the LSE ‘house journal’, but produced no serious reaction there. Coase has written “On the day it was published, on the way to lunch I was congratulated by Sargent and Plant, the two professors of commerce. Neither ever
referred to the article again or discussed it with me, although I worked closely with Plant and he thought of me as a member of his “team”. Robbins, the head of my department, never mentioned the article to me and neither did Hayek, although my relations with both of them were quite cordial. The article was not an instant success.” (Coase in Williamson and Winter (1993), p.51).xxxii There is also an LSE connection with the second article, as Coase reports in that case “I wrote the article in the Summer of 1960 at LSE, where I had access to the Law Reports” (Coase (2009), 201), though that is more tenuous, as he was back at the University of Virginia by the time that article was published.xxxiii

One must conclude that like the majority of the profession, there was a failure at LSE to value Coase and his work until the award of the Nobel Prize led to a general re-evaluation and study of his work.xxxiv

Epilogue

When he left LSE for the USA he made a donation to the Library at LSE for the purchase of books. However, a letter he received at the University of Buffalo from Geoffrey Woledge, the Librarian at LSE, made him think that his wishes had been misunderstood. He wrote to Lionel Robbins on 16th January 1952 (BLPES: ROBBINS/4/1/2):

I had a letter from Woledge about my gift to the Library in which he said he would try “to find some suitable material which will form an integrated collection. This wasn’t my idea at all. What I had in mind was that Rosenbaum [Eduard Rosenbaum, the Acquisitions Officer] should have a little more money at his disposal so that he would have to say less often “that’s a very interesting item, but I’m afraid we can’t afford it”. I don’t want people racking their brains for a
suitable collection. Could you explain to Woledge that this gift is likely to do the most good if it enables margins to be extended slightly in all directions?

This plea for marginal adjustment seems very clear, but in his reply on 29th January 1952 Robbins seems to have subverted Coase’s wishes, as he wrote:

As regards the disposal of your gift, I think I can probably set your mind at rest. Woledge consulted me about the way in which it should be used and I gave it as my opinion that your intentions were exactly as you revealed them in this letter, and I don’t think that there is going to be the slightest difficulty about carrying them out in this way. But I did say to Woledge that I thought we might possibly succeed in killing two birds with one stone, i.e., enriching the library in exactly the way you intended, but providing some compact memorial of your generous thought if we could devote it to the reinforcement of the collection in the special field of early public utility literature, and I suggested to him that he should cause enquiry to be made whether the library possesses all the works under that heading which are discussed in various parts of McCulloch’s [John Ramsey McCulloch (1789 –1864)] Literature of Political Economy. This is all right, isn’t it?

There is no further correspondence on this matter in the Robbins Archive, but the absence of a dedicated Ronald Coase Collection in the BLPES suggests Coase may have got his way and that the Institutionalist may have beaten the Theorist for once.
References

Archive Material: Some of the material quoted here was obtained from the collections of Sir Arnold Plant and Lord Lionel Robbins in the Archives at the British Library of Political and Economic Science (BLPES). References to this material will be denoted as BLPES: PLANT/1 and BLPES: ROBBINS/2/3/4 to identify the relevant folders. Within each folder, items are not classified individually.

BLPES: Plant/222 Title: Lionel Robbins on the B Commerce.
BLPES: Plant/479 Title: LSE lecture notes.
BLPES: ROBBINS/4/1/2 Title: Economic seminar papers file 1, [1946 – 1947]
BLPES: ROBBINS/4/1/4 Title: Correspondence [1946 – 1951]


Prospectus for 1895, (London: London School of Economics and Political Science).


The purpose of this paper is to provide some background information on the LSE as it relates to Ronald Coase’s experience at the School and the influence the institution had on his development. It is therefore very selective and for a detailed history of the LSE see Dahrendorf (1995).

Arthur Lyon Bowley (1869-1957) was a Cambridge graduate, a student of Alfred Marshall, who had specialised in Mathematics. He was appointed to the staff at LSE in 1895 and continued to teach Statistics there until his retirement in 1936. He was also an applied statistician and Bowley (1919), Bowley (1920) and Bowley and Stamp (1927) represent early attempts to measure National Income.

Herbert Somerton Foxwell (1849-1936) succeeded W.S. Jevons as Professor of Political Economy at University College, London in 1881 and held that post until 1922. During much of this period he was also heavily involved in teaching Economics at Cambridge, although his commitments here declined somewhat after his application for Alfred Marshall’s chair failed. He taught at LSE from 1895 to 1922 and laid the foundation for an institutional and historical approach to Monetary Economics at LSE that was continued by Theodore Gregory and Richard Sayers.

Edwin Cannan (1861-1935) was educated at Balliol College, Oxford, but he suffered from severe ill health and left without taking an honours degree. He was of independent means and able to devote himself to the study of Political Economy, to which he brought an historical approach. He taught at LSE from 1895 to 1926 and quickly developed the main course in Economic Theory taught during that period.

Arnold Plant’s handwritten notes recorded at Cannan’s lectures on ‘Distribution’ in the 1922-23 session are preserved in BLPES: PLANT/479. After his retirement, Cannan published “a rendering in book form” of his lectures, see Cannan (1929).

Coase (1994, pp.178-9) quotes with approval from an article that Plant published in 1927, ‘The Economics of the Native Question’ that criticised racial discrimination from an economic point of view and was a trenchant attack on the policy of the South African government of separation of the races. Plant argued that the policy arose from a desire to stifle competition from the native population and was...
economically injurious to South Africa. It was competition that forced individuals to co-operate in an efficient way.

Nicholas Kaldor attended Young’s lectures during 1927-29 and his notes were edited and published by Roger Sandilands (1990), so that we have some record of what he taught during his time at LSE. One further legacy was that Young started running a seminar for research students during his second year at LSE and this was continued by his successor. In his autobiography, Robbins (1971, pp. 119-21) is very negative about Young: while acknowledging that “his erudition was massive”, Robbins adds that “he was not a good general lecturer” and “he proved to be the very reverse of a good administrator”.

Dahrendorf (1995, p.269) reports that Beveridge was interested in this post: in Beveridge (1953, p.184) he wrote “When Allyn Young died in the spring of 1929—just after my mother’s death, just before my father’s—I explored with Steel-Maitland [Chairman of the Governors] and Stamp [Vice-Chairman of the Governors] the possibility of my succeeding Young as Professor of Political Economy at the School and of finding a suitable successor to me as Director.” Dahrendorf reports that neither Steel-Maitland nor Stamp was convinced and the Webbs positively dissuaded him.

Unlike the 1920s and 1940s, a good deal has been written about economics at LSE in the 1930s. See, for example ‘The Distinctive LSE Ethos in the Inter-War Years’ (Coats 1993, Chapter 20), ‘Introductory: LSE and the Robbins Circle’ (Hicks 1982, Chapter 1), ‘The Formation of an Economist’ (Hicks 1983, Chapter 31), ‘The London School of Economics and the Stockholm School in the 1930s’ (Jonung 1991, Chapter 16), ‘Abba Lerner – The Artist as Economist’ (Breit & Ransom, Chapter 10) and interviews with Robert Bryce, Abba Lerner, Tibor Scitovsky, Paul Sweezy and Lorie Tarshis in Colander and Landreth (1996). Given this material is available as background; I shall deal with events in the 1930s quite briefly. Ronald Coase’s ‘Economics at LSE in the 1930s: A Personal View’ will be discussed below.

In the Plant Archive (BLPES Plant/222) is an eleven page undated memorandum from Lionel Robbins in which he is highly critical of the B.Com. on the grounds that it contained too much technical material to be memorised and not enough challenging material to constitute a liberal education. The Archive does contain some marginal comments by Plant, but they are non-committal and it is hard to gauge his reaction to this document.

Cannan was asked to review this book for the Economic Journal. He was clearly unsympathetic to the new definition that Robbins was proposing and he begins his review more in sorrow than in anger “A teacher who tries to restrain what appear to him to be the vagaries of his old pupils when they have already reached the early stages of maturity and the acquisition of reputation runs the risk of presenting a spectacle like that of the heroic hen which plunged into the Cherwell to rescue ducklings which she had fostered.” (Cannan (1932), 424). He was not happy with some developments in the Economics Department at LSE and on 18 December 1932 he wrote to a friend, Charles Fay “… Benham at L.S.E. seems to think the Chinese have lived on their capital because the Great Wall has lost its utility. That fellow Hayek has corrupted them all, and ought to be deported.” (Fay (1937), 10-11).

Coase was critical of Robbins’s preoccupation with the logic of choice and later wrote:

The consumer is not a human being but a consistent set of preferences. The firm to an economist, as Slater has said, “is effectively defined as a cost curve and a demand curve, and the theory is simply the logic of optimal pricing and input combination. Exchange takes place without any specification of its institutional setting. We have consumers without humanity, firms without organization, and even exchange without markets. (Coase, 1988, p. 3)

Joan Robinson provides a sardonic account of how Abba Lerner accepted the Keynesian argument at a joint meeting of Cambridge and LSE economists, with the result that “His companions were quite shocked and were seen afterwards walking him up and down the lawn, trying to restore his faith.” (Robinson (1978), xv). However, there was some tension between Robbins, Hayek and their supporters and some of the junior staff. There were stories of Kaldor being instructed not to lecture on Keynes and Robbins sitting in to check that these instructions were carried out and promotions delayed (see Shehadi (1991) and Thomas (1991)).


When using the Archives at BLPES to research this chapter I was both surprised and disappointed by the lack of material on Coase that was available. There is no specific archive for Coase and a search of the catalogue to the archives produced very little material, as Coase only appears in the archives of Arnold Plant and Lionel Robbins. In the Plant archive there is one item which is a copy of a letter from Plant to Coase, dating from 1963, in which Plant thanks Coase for sending him a paper. There is more material in the Robbins archive and some will be quoted in this section. The rest is either concerned with routine details of teaching or falls outside the period covered by this chapter.

Coase wrote “Until I met Plant my economic views were extremely woolly. From him I learned that producers maximized profits, that producers compete, and therefore that prices tend to equal costs and the composition of output to be that which consumers value most highly. Plant also explained that governments often served special interests, promoted monopoly rather than competition, and commonly imposed regulations which made matters worse. He made me aware of the benefits which flow from an economy directed by the pricing system. Clearly I did not need Chicago.” (Coase in Williamson and Winters (1993), p. 37).

Abba Lerner (1903-1982) had a dramatic start to his academic career, helping to found the Review of Economic Studies and publishing four articles (Lerner 1932, 1934a, 1934b and 1934c) while he was a student, the first when he was still an undergraduate. Coase noted that Lerner faced a theoretical dilemma, as he was both a Socialist and advocate of state planning, but also argued for marginal cost pricing: “Abba Lerner, who in the preface to his Economics of Control, acknowledges Plant’s influence in the development of his views, went to Mexico to see Trotsky to persuade him that all would be well in a communist state if only it reproduced the results of a competitive system and prices were set equal to marginal cost.” (Coase in Williamson and Winter (1991), p. 39).

The fact that the only two examinations in formal economics in the B. Com. were in the intermediate year courses that Coase studied while still at the grammar school explains why he stated that he never studied a formal course of economics while at LSE (see Coase in Williamson and Winter (1993), pp. 36-7).

It may seem surprising that an unknown young Englishman with no formal qualifications could manage to interview senior businessmen as Coase did. He explained that at the time he was a Socialist with left-wing contacts and “Before I went to America, Ernest Bevin, the secretary of the biggest trade union in Britain, the Transport and General Workers Union, had approached Bruce Gardner of the Bank of England on my behalf. Gardner gave me letters of introduction to various businessmen in the United States, and as a result I had little difficulty in meeting them.” (Coase (1991), 39).

Ronald Fowler was born in 1910, came to LSE in 1928 and graduated (with honours) in the B.Com. in 1931. In 1932 he was appointed as Lecturer in Commerce at LSE and taught there until he went to the
Central Statistical Office in 1940. Unlike many of the LSE economists who returned to LSE after the war, Fowler continued as a civil servant: he remained at the Central Statistical Office from 1940 to 1950. From 1950 to 1968 he was Director of Statistics and then Under-Secretary at the Ministry of Labour and then Director of Statistical Research until his retirement in 1972. Following his retirement from the civil service he became a consultant and died in 1997. (See Seldon (1997)).

The letters to Ronald Fowler contain important information about Coase’s development. For example, in discussing Coase’s 1937 *Economica* article ‘The Nature of the Firm’ Medema (1994, pp 15-16) notes that in his first lecture at Dundee in a course on the organisation of the business unit “contained the initial public airing of the ideas on the firm that had crystal ized in his mind since his return from the US.

Coase describes this lecture in a letter to Fowler written on 10 October 1932. A perusal of this letter indicates that the central elements of ‘The Nature of the Firm’ were already present in his mind at this time, and, indeed, he later said that there was no change in the basic approach to the problem in the interval between his lecture and the subsequent publication of the article.”

The Books Recommended for this Third Year undergraduate course included Pigou’s *Economics of Welfare*, Edgeworth’s *Mathematical Psychics*, Cournot’s *Researches into Mathematical Principles of the Theory of Wealth*, Viner’s *Dumping*, Chamberlin’s *Theory of Monopolistic Competition*, Robinson’s *Economics of Imperfect Competition* as well as other readings in German and Italian.

For an interesting analysis of this work that links it to Coase’s article ‘The Problem of Social Cost’ see Bertrand (2014 and 2015). See also Napier (2009).

For a number of years up to and including the 1939-40 session students were offered a course of six lectures given by Hayek on ‘The Problems of Collectivist Planning’ and a course of six lectures on ‘Economic Planning in Theory and Practice’ given by Evan Durbin. Durbin (1906-1948) was later elected as a Labour Member of Parliament and became a junior minister in the first Attlee government. Coase, with his concerns about market efficiency, would have been in agreement with Hayek here.

In his account of LSE in the 1930s Coase hardly mentions the great turmoil experienced by other members of the Economics Department, particularly some of the younger teachers, who were involved in the dispute between Keynes and Hayek. In turn, none of those who were involved in that dispute appear to mention Coase. So it would seem that during this period of theoretical excitement, Coase was ploughing his own intellectual furrow, and why not? For an economist thinking about the fundamental nature of the firm the whole Keynes versus Hayek debate was not really relevant.

According to Wang (2014, 131) Coase “learned that the internal structure of an organization is never a simple hierarchy, that people inside an organization are more interested in covering their errors than correcting them, and that information channelled to the head of an organization is always selective and biased.” This is illustrated by an example that when Coase tabulated data on the mismatch between weapons and the proper ammunition being delivered to different sectors he was asked to stop as the information was embarrassing.

An insight into Coase’s role as a tutor is provided by Jack Wiseman, who came to LSE as a mature student in 1946 after service in the British Army. “It was through the tutorial relationship that I came to know Ronald Coase. As in other matters, he had his own perception of the role of tutor. It might be called demand feeding. He never sent for his students. But if they wanted to see him, he had all the time in the world. … I took full advantage of this arrangement, and through it gained some confidence in my own potential, and the enduring interest in cost theory … Coase’s own enthusiasm was infectious, and I learned enough from him to know that I wanted to know more.” (See Wiseman (2000), pp. 29-63 and Hartley (2000)).
Frank Hahn was a student at LSE at this time and attended the Robbins seminar. In discussing its members he wrote: “Kaldor was always of much value but not always serious. (He would sometimes invent “facts.”) Coase we undervalued because he was so much less colourful than the other personae.” (Hahn (1993), p. 162).

BLPES: ROBBINS/4/1/2 contains a copy of the proposal and copies of the papers delivered at the seminar, but unfortunately there are no comments or records of the discussions. The proposal for this seminar occasions one of the four mentions of Coase in Robbins autobiography (Robbins 1971, 218).

Coase then suggests a reason for Robbins’s lack of interest: “Robbins was devoted to high theory, and I believe he felt some distaste, at any rate in the 1930s, for discussions of such mundane subjects as peasant proprietorships and industrial “forms.” It was not therefore to be expected that an article entitled “The Nature of the Firm” would attract his attention.” (Coase in Williamson and Winter (19930, P. 54).

Coase has not fared much better in books written about LSE that cover his time there: if one consults the indexes in Robbins’s autobiography (Robbins 1971), two biographies of Robbins (O’Brien 1988 and Howson 2011) and the official history of LSE (Dahrendorf 1995), one finds his name there, but generally only as a name on a list of “the great and the good” or when his reminiscences of the 1930s are being quoted. None of the authors make any reference to what he did there, in contrast to what they have to say about Hicks, Kaldor and Lerner, for example.

In the time following the announcement of Coase’s Nobel Prize Award, up to 2009 three academic institutions had claimed him as one of their own: LSE, the State University of New York at Buffalo and the University of Chicago. See Thomas (2009). In January 2013, when the LSE moved into a new building that was to house the Economics Department, they named a lecture theatre in honour of Ronald Coase. The plaque to commemorate his name bears at the beginning of the inscription the words: “Professor Ronald Coase (Bachelor of Commerce 1932) was an alumnus and a valued LSE staff member from 1935 to 1951”. Perhaps this may serve as a belated acknowledgement of his services to the School.