

Contents

1. Setting the Scene	1
Intellectual Inferiority Complex, but not in Chicago	1
Six Landmarks Contributions to the Economic Analysis of Law	4
Coase and Transaction costs	4
Coase and Reciprocity	7
Holmes and Efficient Breach	9
Posner and the Efficiency of the Common Law	11
Becker and the Economics of Crime	14
Stigler and the Economics of Legislation	16
Mathematics, Science and Plausibility	21
Mathematics and Game Theory	21
Positive Analysis and its Assumptions	24
Efficiency and the Normative Dimension	25
Tools for Normative Analysis of Law	26
Limitations and Controversies	28
Value of Information on Wealth-Maximising Characteristics	29
A Look Forward	31
2. Law and Wealth Creation	35
Introduction: Lawyers as Designers and Disputants	35
Property Rights	38
Residual Entitlement	38
Limited Interests in Land	40
Disputed Entitlements	43
Finder versus Occupier	43
Owner versus bona-fide purchaser	45
Business Organisational Forms	47
Market Contracting	48

Contents

Relational Contracting	49
Integration	50
Principal Organisational Forms	51
Owner-manager Firm	52
Partnership	52
Private Company with Limited Liability	53
Public Company with Limited Liability	53
Other Ownership Arrangements	54
Default Rules	57
Contracts	57
Trusts and Fiduciary Duties	60
Conclusions	63
3. The Structure of the Law	65
Introduction: Classification is Important	65
Mapping the Legal System	71
Private Governance: Property and Trade	71
Economic Welfare Implications: Competition and Externalities	76
Law for Private Governance	77
From Private Governance to (Modifiable?) Public Governance	79
Mandatory Public Governance and Public Law	83
Mandatory Public Governance and Private Law	85
Contract or Tort	86
Which set of Obligations to Prevail?	86
Which set of Rules to Apply? Remoteness and Prescription	88
Property Rights and Tort Actions	92
Private Law and Regulatory Standards	94
Abrogation of Private Rights	95
Actionability of Regulatory Standards	96
Conclusions	99
4. Implicit Pricing and Behavioural Incentives	101
Introduction: Why Obey the Law?	101
External Inducements: The Basic Ideas	102

Contents

A Taxonomy of External Inducements	106
Enforcement Costs	108
Monitoring	108
Sanction Processes	109
Sanction Impositions	111
Costs of Targeting the Sanction	112
Simple Deterrence: Reference to Actor's Utility	112
The Normative Alternative: Reference to the Harmfulness of the Activity	114
Fixed and Discretionary Sanctions	117
Punishment	119
Confiscation and Restitution	123
Compensation	125
Cessation	126
Contractual invalidity	127
Informal Costs	129
Corporate Actors	131
Information Costs	134
Conclusions	135
5. Risk Allocation and Risk Management	139
Introduction: Railways, Rings and Russia	139
Limiting Liability: Foreseeability	142
Contractual Risk Allocation: Individual Autonomy or "Fair Shares"?	147
Ex Post Adjudication and Ex Ante Analysis	151
Subjectivity and Risk Management	154
Uncertainty of Risks and the Precautionary Principle	158
Conclusion	161
6. Corrective Justice: Damage, Causation and Responsibility	163
Introduction: The Puddle and the Sauna	163
Causation and Coasean Reasoning	166
Liability for Negligent Omissions	168
Coming to a Nuisance	173
Requirement of "Damage"	178

Contents

Types of Damage	182
Conclusion	186
7. Wrongdoing and Welfare Maximisation	189
Introduction: Publishers Punished and Developers	
Disgorged	189
When Should Wrongdoing be Treated as Generating Welfare Gains?	193
Classification of Legal Entitlements	197
Injunctions and Interference with Property Rights in Land	201
Efficient Breaches of Contract	205
Regulatory Contraventions	212
Conclusions	216
8. Protecting the Disadvantaged	219
Introduction: Crossing the Road Safely?	219
Distributive Justice	220
Law for the Rich and Law for the Poor	220
Relevance of Economics to Redistributive Goals	222
Welfare Costs of Wealth Redistributive Programmes	225
Other Redistributive Policies	229
Paternalism	230
Economic and Paternalist Reasons for Overriding Individual Preferences	232
Individual Decision-Making and Irrationality	235
Status Quo Bias and Inertia	235
Availability Heuristic	236
Excessive Discounting	237
Selective Optimism and Control	237
Social Pressure	238
The Benefits and Costs of Paternalist Interventions	238
The Pedestrian Crossing Near Manchester University	240

	Contents
Other Health and Safety Measures	241
Doorstep- and Distance-Selling	244
Consumer Credit	246
Listing of Securities	248
Conclusions	250
9. Lawyers and Their Influence on the Law	253
Minks, Accidents and Conveyancing	253
Legal Formalities	256
Legal Complexity	261
Legal Jargon	267
Remuneration and Competition Between Lawyers	270
Legal Culture and Competition Between Legal Systems	273
Conclusions	276
10. Conclusions: Is there an Economist in the House?	279
Introduction	279
Formal Requirements of Economic Analysis:	
Regulatory Impact Assessment	282
Cost-benefit Analysis: Problems of Quantification	283
Cost-benefit Analysis: the Normative Dimension	287
Cost-effectiveness Analysis	290
‘Lawyers’ Law’ and Law Reform	293
Judicial Reasoning and Decision-Making	299
Efficiency as a Goal of Judicial Decisions	301
The Relevance of Efficiency Reasoning in the Courts	303
Other Economic Inputs	306
Statutory Interpretation and Public Choice Analysis	307
Envoi	311
<i>Index</i>	313