*Professor Daniel Markovits, Yale Law School*

*At least since Ronald Coase, law and economics has been deeply engaged with transactions costs. These frictions can prevent resources from being efficiently deployed in production and goods from reaching their highest valuing users. The systematic study of how to reduce or minimize transactions costs has yielded explanations, for example, of the boundary between the firm and the market, the allocation of initial entitlements, and the choice between deploying property rule or liability rule remedies when entitlements are breached.*

*But the inevitable frictions that attend to human affairs can produce gains as well as losses, and law and economics has almost entirely neglected the study of these* transactions benefits*. At least three varieties of transactions benefits appear immediately once one starts to look for them.* Publicity benefits *arise when features of one transaction become known and are valuable to other circumstances and perhaps to the legal system at large. One reason to oppose settlement and arbitration, for example, is that even if these forms of dispute resolution involve lower transactions costs than adjudication, they also (for this very reason) fail to generate adjudication’s valuable transactions benefits.* Legitimacy benefits *arise when the frictions involved in legal arrangements transform the beliefs and desires of those who experience them in ways that sustain the authority that the arrangements have over the parties within them. Accounts from social psychology of the authority of adjudication and, more broadly, the role that procedure plays in producing legitimacy emphasize this variety of transaction benefit. Finally,* solidarity benefits *arise when legal frictions constitute intrinsically valuable relationships among the parties who produce them. Adjudication’s transformative powers and contractual collaboration illustrate this variety of transactions benefit.*

*The three species of transactions benefit pose both opportunities and challenges for law and economics. Publicity benefits and perhaps also legitimacy benefits are well captured by traditional economic models, which might treat them as positive externalities. Law and economics can therefore recognize publicity benefits without changing any of its deep substantive or methodological commitments; and recognizing these transactions benefits opens up new avenues for law and economics scholarship. Solidarity benefits pose a much deeper challenge for law and economics, as they move towards the view that value inheres not in states of affairs but rather in relations among persons. This view is difficult to compass from within the functionalist approach to law that law and economics embraces.*