

Furubotn E. G. & Pejovich S. Property rights and economic theory: a survey of recent literature. *J. Econ. Lit.* 10:1137-62, 1972.

[Texas A&M University, College Station, TX and Ohio University, Athens, OH]

This paper attempts to give a systematic account of the major ideas found in the so-called "property-rights" literature that has grown up in the postwar period. What is stressed is the interconnectedness of property rights, incentives, and economic behavior. The new approach is best understood as a way of extending the scope of traditional neoclassical analysis. [The SSC® indicates that this paper has been cited in over 175 publications.]

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The team of E.G. Furubotn and S. Pejovich was formed in 1967 when, as newly arrived faculty members at Texas A&M University, we began to exchange ideas on how to treat questions in comparative economics. Numerous lunches and after-hours discussions led to the realization that we agreed on certain fundamentals. In particular, we were convinced of the importance of free markets and felt that the growing property-rights literature provided an extremely useful starting point for the analysis of different economic systems. Thus, during the next few years, we focused on the socialist economies of Eastern Europe and produced a number of papers in the property-rights or "new institutionalist" spirit. Basic to these studies was the understanding that property-rights arrangements affect behavior systematically and predictably. We found, in short, that as rights to the use of resources change, incentives and economic outcomes can be expected to change in turn.

Our use of the property-rights approach for the study of comparative systems yielded testable models and seemed to provide new insights into the operation of noncapitalist economies. We were aware, however, that the

same methodology was being employed successfully by other writers in their exploration of such areas as industrial organization, labor economics, economic history, and so forth. This whole line of research shifted emphasis away from macroeconomic variables and concentrated attention instead on the role of the individual decision-maker in shaping institutions. Like others, we were struck by the flexibility and potency of methodological individualism. Thus, the idea for the paper was born. Our objective was to show the generality of the property-rights approach by examining its application to various branches of economics and assessing the results achieved.

The interest shown in the paper by the profession probably derived from the fact that it summarized the essential features of modern institutionalism and suggested the potentialities of the new methodology for improving the treatment of many economic problems. Our task as writers was simply to consolidate existing knowledge and place within one accessible package various themes scattered throughout the literature. Fortunately, the paper also appeared at the "right time" and was conducive to the growing desire of economists to go beyond the highly abstract models of neoclassical theory. In any event, the movement toward property-rights analysis proved to be well established and is continuing today. Recent works by L. De Alessi¹ and B.S. Frey² testify to the significance of the trend. Even textbooks now contain some reference to the property-rights approach. Moreover, our own research³⁻⁶ has proceeded along the lines originally sketched in the *Classic* paper.

For the field as a whole, perhaps the most important consequence is the current recognition that appropriate generalization of neoclassical theory requires consideration of property-rights arrangements and transaction costs. The details of this extended model of production and exchange are still being worked out, but the prospects for substantial scientific advance seem good.

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4. ———. Codetermination and the modern theory of the firm: a property-rights analysis. *J. Business* 61:165-81, 1988.
5. Pejovich S. The incentives to innovate under alternative property rights. *Cato J.* 4:427-46, 1984.
6. ———. Freedom, property rights and innovation in socialism. *Kyklos*. (In press.)