INTRODUCTION

A View of the Horizon

This is a study of art from the viewpoint of economic theory—how art comes into being, how it passes from the artist to those who value it, and what determines the value they place on it: three matters that are, respectively, supply, exchange, and demand. Economics should help to explain them as they apply to art (and explain why they do so apply) just as it explains them as they apply to other things. It also should have something to say about how art is paid for, how it could be paid for, and how it should not be.

An economic view of art does not replace aesthetics, criticism, or art history. Rather, it complements them. It looks at the activity of art in a way that can be much different, hence it sees different things, and if used properly it can be informative. It does not tell us all we would like to know—nothing does that about anything—but it may be able to tell us more than we have been told about why artists do what they do in the way they do it, why the world values their work, or does not, or values it less than the artists themselves do, and why when they cannot get from the market what they believe is their due they turn to government to be supported.

The theory that is used here is neo-classicism, a set of ideas that explains how people conduct themselves in order to get as much as they can from what they have. Neo-classical economics is about sensible and self-interested behavior. It is not, as it is used in this book, particularly difficult. Its brute, irreducible elements, as William James could have called them, are self-evident. One is that if people do not have as much of something as they want and are offered more for nothing, they will take it.
Ideas like that, while they are simple, are not simple-minded. They can be informative. Why did John Frederick Lewis abandon his prominent position as a watercolorist in Britain and turn to oil painting? Some would look into the inner man for a psychological explanation, others to the outer world for possible transformations in Victorian society, still others for evidence of a new aesthetic (snipping off the "s" as they snip it off ethics). An economist will be satisfied with what Lewis himself said, humdrum but plausible, certainly intelligible: "I felt that work [watercolor] was destroying me. And for what? To get by water-colour art £500 a year, and this too, when I know that as an oil painter I could with less labour get my thousand." Admittedly, Lewis is not a familiar figure in the history of art, but he was not unusual. Luca della Robbia acted on the same principle (opportunity cost) when he turned from one form of sculpture to another, and the principle has directed many others, on both sides of the market, collectors as well as artists, and within it dealers and auctioneers.

ECONOMICS AND THE ACTIVITY OF ART

The reader may wonder if I intend to bring still another field of study within the scope of economics, a thing that has happened so often in recent years that economics has come to be called the Imperial Science. Psychology, sociology, biology, political science, international relations, ethics, and law—all have come within the domain of economics or have been affected by it in an important way. I would like to do just that with the visual arts and in particular with painting. There is no necessary reason why they cannot be studied with the aid of the analytical methods of economics, especially the leading ideas in the theory of utility and of cost. Much of my book attempts to do that. How well it is done is for readers to decide. If they should decide it has not been done well, they will, I trust, blame me and not economics. The activity of art—the making, the acquiring, and the using of it—is a certain kind of behavior. Behavior of all kinds entails choices, and all choices entail returns and costs. The two are what economics is about.

But in the world at large, there is the feeling that certain kinds of behavior do not belong in the domain of economics, hence it should
not presume to study them. This is behavior that is touched by the higher values, as they are called. To ask if truth, beauty, and goodness are worth what they cost seems to debase them. "High Heaven rejects the lore/Of nicely-calculated less or more," Wordsworth said, and it has been said by any number of others, although not as well. Actually, if economics has no relevance to the higher values, it is a poor thing. But it has. They are the values that call for the most searching thought, the most careful comparisons, and the most nicely calculated choices—they call for the rationality that economics attributes to people in everything they do, whether they address themselves to the lower values or the higher. About the former, about mankind in the ordinary business of life, the critics of economics have said it is unrealistic; about the latter, mankind in the extraordinary business of life, they have said it has no application. If they were right, economics would be useless. But they are not.

Wordsworth himself made a nice calculation. After the Lyrical Ballads, he became a celebrated figure, and his home was a mecca for tourists. He provided them with refreshments—at a price. In doing so he implicitly acknowledged that poetry and tea are what economists call complementary goods and that an increase in the demand for one increases the demand for the other. Did he thereby debase his poetry (or his tea)? Today those who read it probably are not aware of its connection with a snack bar, and if they were they would be no more than amused.

My purpose, then, is to employ microeconomics to help to understand certain features of the visual arts, some reaching into history, some having to do with the present. The most I claim is that it can be helpful.

HOW THE ARGUMENT IS CONDUCTED

Economics can offer reasons why the styles of painting have changed throughout the history of art and predicts they will continue to do so. It cannot explain the choice of subject matter (or the choice of none at all), but often it can explain the direction of the change and usually can explain the limits of change.

One reason for change is that novelty is interesting while repeti-
tion is monotonous. This should reassure people who have been told and believe that the multiplicity of styles of modern painting reflects the disappearance of values, standards, and criteria, or the bewilderment of the alienated artist in a hostile world. The economist’s explanation is, by contrast, prosaic—not a frisson in it—but it is intelligible and in principle can be judged empirically. It is an obvious implication of the idea of diminishing marginal utility, which is the idea that the more we have of a thing the less satisfying is still more of it. If this were not so, Andy Warhol need not have done anything more than have multiples made of a single drawing of Marilyn Monroe. The millionth or trillionth would have been as interesting as the first, and it would have been no more or less interesting than the last or first of the seventy-five copies Gilbert Stuart made of his portrait of George Washington.

Another implication, which is not obvious, though in no way difficult to understand, is that the satisfaction we get from anything we get only at a cost. The cost is not just the price paid for the object. It is also what we must do or have done in order to understand, apprehend, enjoy, or appreciate it; and that cost is the consequence of what we have learned, have experienced, and have worked to achieve. It is our accumulated investment in taste. All investment, whatever its form or purpose, has a cost and is made when the return it yields is worth the cost. Only a few people ever have found the investment in a taste for art to be worthwhile. They have not found it to be worthwhile in the past, not in the present, and probably will not in the future. Just why is a question that leads one to the distribution of income (art is a luxury) and to the distribution of occupations (art is useful information in some jobs). An implication is that the surest and quickest way to bring the masses to art is to pay them to notice it. Such topics have to do with the demand for art, and it is the subject of chapter two.

The making and creating of art is what chapter three is about. It describes the similarity of painters in their studios to businessmen in their enterprises. Painters have been directed by self-interest and have tried to do the best they could with their own, that is, they have been maximizers. When they placed their work on the market they took account of the price of work done by other painters. Joshua Reynolds, when he began to paint portraits, asked less for them than his teacher asked for his, and Reynolds as he became better known raised his prices until they equaled those of his teacher. Painters have
not been able to set prices on their work, but have had to take what
the market offered, because what each did was to some extent in
competition with what others did. Their works did not sell at the
same price at any one time in any one place because they were not
perfect substitutes. On the other hand, none was unique in the sense
that at no price would another work be preferred to it, not even when
the works were quite different. Bramante thought he would not get
the architectural commission for St. Peter’s if the pope decided to spend
money on a tomb for himself done by Michelangelo. Bramante got the
commission but first had to frighten Michelangelo into fleeing Rome.

Painters also have been aware of costs, including the subtle
notion of opportunity cost as Lewis and della Robbia testified by their
decisions. They also have been aware of cost in the familiar, money,
sense and have tried to minimize it by using assistants, collaborating
with each other, subcontracting commissions, copying themselves,
economizing on the use of materials, and employing their families,
apprenticing their sons, or making sons-in-law of their apprentices.

A remarkable fact about works of art is that most of them, including
those that in their day were highly valued, have not survived,
some because they have deteriorated physically, but most because
the world has lost interest in them. They have become worthless in
an aesthetic and in a monetary sense. This does not mean works of
art when newly created are systematically overvalued (if that were
true there would be a futures market), but that they are subject to
obsolescence. Collectors should know that the value of most art falls
to zero in a fairly short time, just as other things do when the desire
for them passes away. They also should know that studies of the rate
of return to art do not all report the same results, which makes art
a chancy investment and a still chancer speculation, suitable for risk
lovers, whether or not they are art lovers, but not for people who
don’t care for risk or who want even odds however they may feel
about art. The wise collector buys what he likes, pays no more than
he must, and does so because he acts with reputable dealers.

Dealers and auctions conduct the market for art, and it is the
subject of chapter four. The salient features of the market are the high
cost and the uncertainty of information. They do not set the art
market apart from that for other things or make undue demands on
economic theory. They do call for close attention. It discloses the
ways in which the market tries to reduce the cost of information and
uncertainty. Buyers, in ascertaining the authenticity of a work and
the correct attribution, seek out the provenance or previous owners. Dealers and auction houses have an interest in providing it. They and collectors want another kind of information. They would like to know where the art they want to sell or own is located and to know what the price is. An important part of the work of dealers consists of finding art to sell. What appears to be an enormous markup is the cost of doing business. If the markup were more than the cost, there would be an increase in the number of dealers until it was no more than the cost.

The market for art, like other markets, is a magnet for misconceptions, invites detractors, and elicits schemes for reform by means of regulation. Auction houses are said to misrepresent their actual sales by the practice of reserve prices. Dealers are said to pay artists very little for their work and to resell it at a great profit. Buyers are said to alter what they buy, hence to reduce its value and the value of other work by the artist. For each of these transgressions, a regulation of one kind or another has been proposed and in some places has been enacted. That the regulation can work to the disadvantage of those it is meant to protect as well as those it is meant to punish makes the regulation of the market for art like that of other markets.

Each of these chapters—on the demand, the supply, and the market—rests on the same assumption, and it is indispensable. It is that works of art are economic goods, that their value can be measured by the market, that the sellers and buyers of art—the people who create and benefit from it—are people who try to get as much as they can from what they have. In a word or two, the activity of art is a maximizing activity. Without that assumption, economics has no place in the study of art or of anything else.

The assumption does not mean art is no different from anything else. Of course it is, and so is each thing different from every other thing. If it were not, there would be no word “each,” there would be no more than one noun, no more than one object in the world, and entropy would reign. Folk wisdom has it that apples and oranges cannot be compared, but the folks whose wisdom that is compare them every time they go to the fruit stand and choose one or the other. If they choose neither they are comparing each of them with everything else including art. Differences among goods do not determine which come within the scope of economics and which do not. That is determined by whether the activity entailed by the good—its production, distribution, and consumption—is a maximizing activity.
That, in turn, depends on whether the good is scarce. It is scarce if, at a zero price, people want more of it than is available. Art is scarce. Even though few people value it, they would want more than they now have if it were free. Because it is not, it must be created, made available, and held carefully, which is to say, economically. That means as much utility as possible must be gotten from it, in the form of enjoyment, pleasure, instruction, enlightenment, inspiration, and so on, and, what is just as important, must be gotten at the lowest possible cost. That is what maximizing activity is.

Throughout this book art is treated as a maximizing activity. The assumption has to be justified. Chapter one sets out to do that. It is closely reasoned, abstract in places, and while not long or particularly difficult may seem to be. Certainly it is not reading for the beach or material for a Walkman. I have tried to make it interesting with examples of economic calculation in the world of art and to make it convincing by explaining the property of art that brings it within the scope of economics. A necessary condition of doing so is to demonstrate that aesthetic values and economic values are consistent. In support of that claim I have marshaled information of various kinds. One is an empirical study which shows that the price of the work of the principal living artists of the world is consistent with the critical judgment that has been made of them.

To prove that people in art are people who maximize is not difficult, but to make the idea convincing is uphill work. The idea is so simple that if it is applied to farming or laying bricks or choosing a share of stock it might be thought trivial. People who maximize are simply people who prefer more to less and will try to get it if they expect the additional return to be worth the additional effort. But when the idea is applied to art, it seems to go against the grain—the grain being the anti-market mentality, a subdivision of the anti-materialist view of how people ought to behave. A noticeable part of this book is about the anti-materialist view because it has affected much of what has been said about art. The view has had much less effect, if any at all, on what most painters, collectors, dealers, museologists, and government functionaries actually have done and continue to do than it has had on what they say. The features of the anti-market mentality are first described in chapter one, and they appear and reappear in their protean forms in other chapters. Some are unintentionally amusing, as in one of Vasari’s Lives, that of the excellent but diffident Andrea de Feltrini, a painter of Florence, who
had no taste for the hurly-burly of the marketplace and so formed a partnership with a painter who did have the taste.

The disdain for the market is noticeable in what museums, the subject of chapter five, say they would like to do and are not always able to do because they haven’t enough money to do it. They are nonprofit organizations, and there is an economic theory at hand for analyzing them. It is informative. One of the things it helps to explain is why they exhibit only a part of their collection (about one-half in the U.S.), yet want to collect more and want to build more storage space. The reason is that they act as if their principal form of capital, which is their art, were free. They also want to use more of their resources for administration, research, education, and conservation and to use relatively less for exhibiting their art. At present about one-third of the space of new or newly enlarged museums is used for exhibition, a proportion that is less than it once was. One reason for the declining importance of exhibition is that museums have taken on functions they did not have in the past or were less important than they now are. The explanation is in what economists call the agency relation, which is the relation between those who provide the resources for an organization and those who administer their use. In organizations of all kinds, the administrators ideally should fulfill the intention of the providers. That does not always happen and happens less in a nonprofit organization than in an organization conducted for profit. The agency problem in art museums is disclosed, for example, in the way their purposes have changed, in the increasing importance of research expenditure, in the declining importance of exhibition, and in the controversy over popular exhibitions, which is a controversy over how important attendance is, and that in turn is the issue of whose interest a museum is supposed to serve. Some museum people seem to believe their professional standing—which affects their present and future income, of course—does not depend so much on how the public at large likes what they do as it depends on the critical and historical value of what they exhibit as that value is judged by their fellow professionals.

The distress museologists feel about attendance has become more noticeable now that “blockbuster” exhibitions are being enlarged into “megashows” that include the performing arts, so that along with painting and sculpture the public is offered theater, film, music, and dance. The distress is a kind that can be felt only by a nonprofit organization. One cannot imagine the management of Dis-
Maryland feeling the same distress. Museums, to be sure, do not wish to be placed alongside theme parks. But they can hardly disassociate themselves from the enterprise of Charles Willson Peale, a painter himself and father of several others, the owner of one of the first museums in the United States, one of the few museums ever conducted as a private enterprise for profit. He certainly had his eye on the box office.

The nonprofit status of museums, although it does not entirely remove them from the market, does temper the market's harsh wind. It also does that for organizations in the performing arts: in music, dance, and theater. It is not the only shelter they have. They are subsidized in different ways in varying amounts by private benefactors and by government. In the United States, until a generation ago, the assistance was mainly private. Now government provides a significant amount, the federal government itself in more than 300 programs, and the governments of the states, cities, counties, districts, tax catchments, spending regions, and so on also give some help. The arts say they do not get as much as they deserve, not as much (they say) as the arts of Europe get from their governments (which in Spain and France importuned the Disney people to establish a Land within their borders). Nevertheless, in the United States, the place of government in the arts has become important. The arts would like it to become more so, in a relative as well as absolute sense.

Why people in the arts prefer government to private assistance, whether they are entitled to one or the other or either, whether (quelle horreur) they should justify themselves on the market—these are questions that draw art into the area of public policy. That area is the subject of chapters six and seven, which conclude the book. The aspect of policy that most often has engaged the interest of economists is why the arts cannot support themselves and should not be expected to do so. That is, most economists have believed and continue to believe government should assist the arts.

I am an exception, because I am not convinced by the arguments that have been made in favor of assistance, some eight of them by my count. In chapter seven they are described as fairly as I can describe them, and my objections to them are stated as plainly as they can be stated. The chapter brings one to the question ("overwhelming," to the people who value the arts, and less important to the greater number who do not): Should the arts support themselves? For readers who would like an immediate answer, it is that a strong
argument can be made that they should. For readers who would like a brief as well as immediate answer, it is yes.

The issue is important, but so is another. Why does (not why should) the government assist the arts? That interesting matter is the subject of chapter six. It has gotten almost no attention, possibly because the reasons that have been advanced to justify government assistance have been thought to explain why it is given. But they do not stand up under scrutiny. Could there, then, be other reasons?

One might be what Burke called "the prolific imbecilities of reform." The National Endowment for the Arts in 1975 gave money to forty public schools in San Francisco to conduct an "art activity" that included teaching pupils and their parents farming and animal husbandry on vacant lots near the school buildings, the purpose being "to train people to address the critical problem of food shortages and in fact future survival." This seems to be as silly as government can get but was not as expensive as what another part of the government, the Department of Agriculture, was doing at the same time, which was to spend $25 billion to reduce food production.

But folly is an expletive, not an explanation. Looking closely at what government does usually uncovers a reason for its doing this, that, or the other thing for people in one group or another—in the arts, the schools, on the farms growing sugar beets, in Michigan making automobiles, or in the wilderness watching birds. The reason is often to protect people from the market, which means to provide them with a higher income than they could earn there. The government does not provide the protection out of a sense of benevolence or because it is infinitely wise. It does so because it is importuned to do so by the people who benefit. The importuning is rent-seeking (called that for reasons explained in chapter six). One finds that what the government provides the world of art in subsidies, tax advantages, and direct services (a) is sought by people in that world (who create, perform, produce, and enjoy art), (b) is mainly to their benefit and not that of the population at large which must finance the benefit by higher taxes or fewer public services, and (c) is obtained more easily because the economic circumstances of the arts facilitate rent-seeking.

In the course of making my argument, I shall try to be convincing, of course; or if not that, to be plausible; or if not even that, then at least to be interesting. I shall try to be that by explaining that the economic characteristics of the arts are similar to those of the goods
and services that are exchanged on the market and support themselves on it. Those goods and services mean different things to different people, yet have one feature in common: their value can be expressed in money as well as in other ways. The same can be said of works of art. Moreover, the values that are stated on the market are, some of them, values of goods that are as important as works of art, and some are more important. People in the world of art, and those outside it as well, would agree with this observation if they reflected on the field of wheat that the elder Pieter Bruegel painted and the actual wheat he saw.

THE PUBLIC ADDRESSED

This study is not meant for economists alone or even mainly for them, and its primary purpose is not to put forward a new application of microeconomics. The study does that, to be sure, and there are economists who may be interested in it for that reason. But the people to whom I want most to speak are outside of economics. They are interested in art because it is a part of our culture or because they collect it or because it is a practical affair in their lives as it is to artists themselves, to dealers, teachers, museologists, and people having to do with the cultural activities of government or simply because they like to visit museums.

The study is written in ordinary language as much as possible, and where the language of economics is used it is defined in the explanation of the idea it conveys. From time to time, when I wish to be as clear as possible to other economists and to myself, I have put things in the special vocabulary of economics and set them in brackets. The general reader who wishes to eavesdrop can note what they enclose; the reader who doesn’t can ignore them. Parentheses, on the other hand, do not mark off the territory of economics or of anything else but are used in the conventional way (for parenthetical expressions of course).

The words “art” and “visual arts” are almost always used to mean painting, occasionally to mean drawing, prints, and sculpture, never to mean the decorative arts or architecture except if expressly stated. The term “the arts” has a general meaning that describes
those objects and activities which provide an aesthetic experience (with a suitable exception for such things as sunsets, nightingales, and daffodils). The "performing arts" are a class of such activities, such as ballet, and are alluded to occasionally in order to make a distinction or to show a similarity to painting, painters, or museums. But the allusions are few, and the performing arts have only a small place here. There have been many inquiries into them, and they have gotten quite the attention they merit from economists.

About the visual arts, little has been written by economists. Some of that small amount has been of exceptional quality, like the work by J. M. Montias on the art and artisans of Delft in the seventeenth century, and the empirical studies of the prices of painting made by John Picard Stein and Robert Anderson. About museums, economists have written even less. There are the thoughtful papers of Alan T. Peacock, and they have an illustrious precedent: "The Use and Abuse of Museums" by W. Stanley Jevons, one of the great figures in the history of economics. He was not, however, at his best in this paper. It touches on many of the topics that museologists say are important—the scholarship or scientific inquiry of museums, their place in the education and improvement of the common people, the importance of how objects are exhibited, and the proper method of administering museums. Yet he said nothing about how they should be financed, a curious omission by an economist but understandable in a Victorian. "I find it very disagreeable to talk about money," a Trollope heroine says in The Belton Estate. Her suitor reflects it would be more disagreeable to have none to talk about but keeps the thought to himself.

The subject of money is not omitted in this study. Whatever faults it has, that is not one. Let us, then, get to it.