Art and Economics
Reconciled

Get this into your head, no one really knows anything about it. There's only one indicator for telling the value of paintings, and that is the sale room.
—RENOIR

THE SUBJECT is the value of art: how it is described in economics and how people in art describe it differently when they talk about it, but not when they create, collect, and exhibit it, on which occasions they act like economists. The main question of this chapter is whether the value the market puts on works of art is consistent with their aesthetic value. I believe they are, and Renoir did too. His remark was reported by François Duret-Robert who added, “When he says ‘value’ he really does mean aesthetic value, not value in monetary terms.” Actually, what Renoir meant is that the two values are consistent.

The consistency makes economic calculation possible. That too is argued in this chapter and throughout the book. Because people in art calculate, their behavior lends itself to economic analysis. They do acknowledge there is a dollar-and-cents side to what they do, indeed lament the fact. Pictures have a price, so do violins and violinists; painters want an income; theaters and museums must be
heated and lighted: guards, ticket sellers, and curators must be paid. Yet these facts, one is told, have nothing to do, really, with art as an object or experience having aesthetic value. The economic side of art is said to be necessary or inescapable. What is denied is that it has anything to do with art itself—the goal, purpose, objective, or end sought by people who provide it. An economist would say the costs they incur have a great deal to do with the value or quality of what they produce. If that were not so, all paintings would have the same price and so would all violins, and the incomes of all painters and violinists would be the same, or differ from each other for reasons that could not be explained or for no reason at all. The argument of this chapter is that the prices differ according to the aesthetic value attached to the objects.

The consistency of values is shown most clearly when an important painting is auctioned. The seller is as well informed as he can be about the importance of the work, and the buyers are also. Each of the latter has his reasons for wanting the picture, and the reasons are all related to aesthetic value in one way or another. The highest bid will be made by the buyer for whom that value is greatest. What is said about painting that is on the market can also be said about painting that is not (and it comprises a much greater part of the total stock). Its measured value must be consistent with its importance or simply with the care that is taken of it.

THE VALUED AND THE VALUABLE

By "the aesthetic value of art" I mean nothing more (or less) than the qualities that make it desired by someone. The definition casts a wide net, I admit. It seems to say the aesthetic value of an object is that which makes it aesthetically valuable. When the theory on which the idea of economic value rests—the theory of marginal utility—was stated by Stanley Jevons in 1870, a contemporary remarked, Mr. Jevons seems to say the value of a good depends on its utility and its utility is what gives it value. Actually, the theory, although it may seem to be, is not circular. It says things are valued according to the utility they yield and utility is any kind of satisfaction an individual experiences from what he has. It can be one or a number of things,
and it can differ among people. A painting can be desired for one or many reasons by one person or by many.

The reason can be beauty, yet to say that is not to say much, because the word means different things to different people and to any one of them when it is used about different objects. However, there is one thing beauty cannot mean. It is not an explicit property that everyone agrees is a necessary and sufficient condition of a work of art, a property that is clearly definable in professional or ordinary language, and that by observation can be said to be present or absent in a particular work. To be brief, by aesthetic value I do not mean an objective property.

Does anyone? Probably not. But people in the arts are known to express an opinion in a way that makes it sound like a demonstrable truth. Aesthetic value cannot be, and at most it can only suggest a limit or segment of a periphery within which a judgment of value can be made. It may not even do that. Consider the celebrated principle of Berenson, that a painting must have tactile values (its touchstone?). Could that have been what Renoir meant when he said he knew he had finished painting a nude when he felt like patting her on the bottom? Some museums post signs, “Don’t Touch.” But not all do. Does that mean not all collections have tactile values?

Berenson’s principle is not much heard of these days, and he himself made less of it as time went on. Actually, aesthetic judgments, or statements about aesthetic value, do not have the place they once had in art history, criticism, and reporting. They now are so unusual that they come as a surprise. In 1968, there was a grand exhibition of the works of Degas, and it must have included about everything he ever did including his photography. The ballet paintings were present of course, and they were described in one report as “breathtakingly beautiful.”2 Not everyone would have said just that, or would have said that at all. Some would have said they are pretty, others that they are beautiful but not breathtakingly so. Still others would sigh at still another exhibition of Impressionism and reflect that of the making of Impressionist exhibits there is no end and in the seeing of them there is endless delight, apparently.

In 1966, when the Helga paintings of Andrew Wyeth were made known to the world at large, a news magazine asked a number of knowledgeable people for their opinion of him. He has for years been one of the most popular painters in the United States, as indicated by the attendance at exhibitions of his work, and by the prices he re-
ceives for it. The knowledgeable people who were consulted were not of a single opinion about him. They did not even agree about whether he was to be taken seriously, whether he was an "artist" in the way knowledgeable people define "artist." Admittedly, Wyeth is difficult to place; but hard cases should not make bad aesthetics. If it laid down clear, certain, and universal principles, the difficulty would be overcome.

Aesthetics does not do this and has not in the past if one infers its content from the judgments that knowledgeable people have made about paintings. Ruskin said things about Turner that came to be believed and still are. He said things about Murillo and Teniers that if remembered would be an embarrassment (that Murillo was immoral and Teniers simply vulgar). Jacques Maritain said religious painting must be judged by its power to enhance the belief of the viewer, the belief being not just Catholicism but Maritain's version of it. In Naples in the seventeenth century, the Board of Deputies of the Capella del Tesoro did not believe the local artists were qualified to decorate it and called on artists from other parts of Italy. Today the excluded painters (Ribera was one) are in the museums of the cities that exported their talent to Naples.

From the sixteenth to the nineteenth centuries, the mosaics of St. Marks in Venice when they became worn were not restored, nor was the original subject matter retained. They were replaced by new subject matter from new designs by artists of the day. In the great period of Venetian painting, Veronese, Titian, and Tintoretto made cartoons that craftsmen then set in the ceiling and walls in mosaic form. If today their work, or what is left of it, were to be replaced by that of living artists, for example, Enrico Baj, there would be a hue and cry and all right-thinking citizens would be expected to berate the vandals. Actually, there was controversy at the time, but it had nothing to do with the artistic heritage. An action was brought against the craftsmen who were to execute the cartoons in mosaic form. They were accused of painting over the old tesserae instead of using new. The episode touches on three parts of applied economics: property rights, cost-minimizing, and the principal-agent relation. Today there happens to be another controversy over a celebrated ceiling, that of the Sistine Chapel in the Vatican, and the controversy is another indication of the diffuse character of aesthetic judgments. The people engaged in the restoration insist that all they are doing is removing dirt from the surface and removing the overpainting done
by previous restorers. Their principal critic says that whatever they are doing they shouldn't be doing it because Michelangelo's colors could not have looked the way the cleaned portion of the ceiling now does. (They certainly are different from the colors of the uncleaned portion and surprise one by their pastel shades.) The issue seems only to be authenticity: Is the cleaned or uncleaned portion nearer to the original? But if that actually were the issue, the history of art would have to be done over because innumerable paintings have been altered, a few by the artist himself. On looking at any of them, one cannot be certain whose work it is. There is no agreement among recognized experts about whether a painting in poor condition is more true to the artist's intention than a painting that has been restored with fidelity to his intention. If things stood so in literature, we would not know whether Shakespeare or someone else wanted Hamlet to soliloquize. (Of this, more in chapter four.)

Impressionism and Postimpressionism provide another example of the caprice of aesthetic opinion. These painters are especially interesting because their merit is said not to have been recognized in their time. Admittedly, they were not popular. Meissonier spoke contemptuously about "the gang of jeunes," and Daumier when he saw a painting by Monet in a gallery window urged the dealer to remove it. Puvis de Chavannes disliked the work of Cézanne. Moreover, the Impressionists and Postimpressionists didn't care for each other. Manet urged Monet who knew Renoir well to advise his young friend to give up painting while there was time. Years later Renoir said the work of Manet, who didn't want to be associated with Impressionism, suffered from the association. It made him give up black, Renoir said, and he should not have done that. Degas also regretted that Manet had given up his "magnificent prune juice" for the sake of light. Cézanne and Renoir disliked van Gogh’s paintings intensely.8

Yet the fact that people disagree about aesthetic value does not mean the judgments they make have no foundation, hence no content, and thus no meaning. The judgments have a firm foundation in the preferences of the person who makes them, and his or her preferences have their origin in what economists call a utility schedule or (when they want to bring things to a high finish) the arguments in it. It is the collection of wants, needs, desires, likes, dislikes, propensities, aversions, etc., to goods and services which when acquired or avoided satisfy those wants, aversions, etc. To state the point simply, a painting has aesthetic value to a person if it gives him the satisfaction he
calls aesthetic. And a liquid is thirst-quenching if it quenches his thirst.

This could be taken to mean there are no standards of any kind, not even in the sense of common preferences that are revealed by the choices people are observed to make. The idea then implies that choices do not show a central tendency, that likes and dislikes are scattered evenly over all of art such that if there are 100 people and 100 pictures each person will like only one of them and he alone will like it. The fact is otherwise, as every museum visitor knows. There are more people looking, or trying to look, at the Mona Lisa than at any of the other paintings by Leonardo a few feet away from it in the Louvre, and downstairs there are more Japanese being photographed with the Venus de Milo—full frontal, both—than in front of any or all of the sculptures nearby. The fact that people have preferences in common makes their behavior predictable. I once was standing at the head of the Grand Gallerie wondering if I should have coffee before making the long journey down it to see Cimabue’s Madonna in Majesty (a picture that is an example of cost-minimizing as explained in chapter three). An American girl walked by uncertainly, paused, returned, and asked, “Do you work here?” The question was understandable since I was wearing a jacket similar to those worn by the guards and I was standing by in the idle fashion of a guard. “No.” I said, “but are you looking for the Mona Lisa?” “Yes.” “Second door to the right.” A year or so later I was standing in the same place, wearing the same jacket, when two Germans came briskly forward and briskly demanded, “Wo ist die—?” Before they finished the question I waved them along to the second door on the right.

Taste is another name for preference, and, contrary to the wisdom of the ages, it can be described, analyzed, and to a certain extent can be explained (as it is in the next chapter). It can even be disputed, not (need I say?) by an absolute standard of aesthetic value, but for its consistency. If a man says he likes both Greyed Rainbow by Jackson Pollock in the Art Institute of Chicago and the Assumption by Titian in the Church of the Frari in Venise and wonders why, he might be told the Venetian painting of that period is distinctive for its high color along with the sense of movement just as some Abstract Expressionism is and that if, movement apart, he likes the high color of that Titian, he might also like the work of Mark Rothko.

Enough for the time, then, about aesthetic value.

Economic value, strictly speaking, is the general form of all
value, including that which is aesthetic and that which is not aesthetic but is value of another kind. An object—good, service, or whatever—has economic value if it yields utility. If it is a work of art, the utility is aesthetic. If it is something else, it yields another kind of utility, and that utility is its economic value. To say that aesthetic value is “consistent” with economic value is to say no more than that the particular comes within the general, or that aesthetic value is a form of economic value just as every other form of value is.

That statement is, in effect, the proof of what this chapter claims. But I shall not leave the matter there. A consequence of the relation of the values is that the price of a work of art is proportional to its aesthetic utility. That, in turn, means the price of work A is to its aesthetic utility as the price of B is to its aesthetic utility. This is another way of saying the prices of things are proportional to their [marginal] utilities. In ordinary language that means when we buy something we believe it is worth its price; otherwise we would not buy it.

THE PRESENCE OF PRICES

To ask if something is worth its price is to ask if it is worth the other things that could be had for the same price. People in the arts ask this question—if they think at all of what they are doing, and they do seem to as much as anyone else does. When they ask it they are making an economic calculation. They ask it even though they are given to saying—are fond of saying, delight in saying, insist on saying—that considerations of money should not interfere with considerations of artistic merit.

The National Gallery of Art in Washington has a “Special Exhibition Policy for Corporate Contributors.” The statement, after explaining that Congress provides money for special exhibitions but requires the Gallery to solicit private contributions, and after acknowledging that corporations have been generous, goes on to specify what they may and may not expect for their money. They may not, among other things, use trademarks inside the Gallery but may use them outside. They are to understand that special exhibitions open with a social event at which the lenders of works on exhibit are
publicly thanked, and that the cost of the event is borne by the corporate sponsor. The sponsor may have a social event of its own and may serve liquor if that is done “in a manner consistent with normal practice” as described by the Gallery. How the corporation advertises the exhibition “must have prior approval” of the Gallery. The statement goes on for nearly a thousand words in this vein. A corporate executive of any sensitivity might just think he was being hectored, might even wonder if the Gallery wished him to believe that by accepting his money it was raising him from the netherworld of commerce into the realm of art with a way station in the purgatory of the policy statement. Also to be wondered is whether the statement was meant to show the world of art what a high moral line the National Gallery can take, higher even than the Metropolitan, its arch-rival, can take because the Met cannot rely on as much money from the government. Nevertheless, the National Gallery lives in the same world, the world where resources are scarce, wants are abundant, hence where choices have to be made, thus where economics obtrudes. When it bought Leonardo’s *Ginevra Benci*, it must have asked whether the $12 million or so (the rumored price) could have been used to better advantage on other acquisitions, and the fact that it was not so used, the fact that the Leonardo was acquired instead of another work, means the Gallery believed the painting paid for itself. There is also the delicate matter of where the $12 million came from. Had it come from the government, it would have been a transfer from the public that does not visit the museum to the public that does. The question then would have been whether the people whose taxes paid for the painting received as much benefit from it as they would have gotten had they spent the money themselves on things of their own choosing (including gifts). Since most people prefer to spend their income as they wish rather than to pay taxes with it, may one not say the picture bought with their taxes would have been worth less than what they had to give up? Hence may not one say that in those circumstances the Leonardo was not worth its price? I believe one may say just that. There are others who emphatically declare that one may not say that at all.

The disagreement is examined in chapter seven, on subsidies. It happens not to have been an issue when the Leonardo was acquired, which was with money from private sources. As the gift was voluntary, the giver or givers must have gotten more satisfaction from doing what they did than from not doing it. In a word, *Ginevra*
paid for itself, and the principle of economic efficiency ruled.

The Cleveland Museum of Art provides another example. In 1974, it bought a painting, *St. Catherine*, by Matthias Grünewald whose work was in only one other American museum, then learned the painting was not authentic, returned it to the dealer, and was refunded the million or so paid for it, while the dealer was left to reflect on the relation between value and cost, specifically that the value of a work of art, or what it is worth, is measured in money, just as its cost is measured that way; that there is a right and a wrong relation between them; and that when it is wrong someone loses, in this instance the seller.

The director of the National Museum of Wales must have reflected on the same question when in 1979, at a cost of about one million pounds, it acquired four cartoons that British experts said were the work of Rubens. An American expert said they were the work of a lesser artist of the same period. Each side attracted partisans, and a transatlantic row ensued. Meanwhile, the director could have taken note of the interest the money would have yielded had it been in bonds while the attribution of the art was being decided. There would have been no uncertainty about whether the bonds were really bonds and what was their price and yield. Of course, the bonds could have become worthless by the debtor's defaulting, hence the difference between them and the art is their being less risky, hence for a given return they are more expensive (all of which will be made clear in due course).

The Museum of Fine Arts in Dahlem, West Berlin, learned that the portrait of *The Man with the Golden Helmet* was not by Rembrandt as had been thought. The Metropolitan in New York is of the opinion that two paintings which for a long while were said to be by Rembrandt now are believed not to be (*Pilate Washing His Hands* and *Woman Paring Her Nails*). Surely these new attributions have not only lessened the importance of the paintings from an aesthetic and historical point of view but their money value as well, as indicated, for example, by the insurance provisions made for them. By the same reasoning, there must have been an increase in the money as well as artistic value of particular objects in the Vatican collection that the curators at the Metropolitan discovered were historically related when they were being prepared for exhibition there in 1983.

In the Fine Arts Museum of Indianapolis, at the entrance to a small gallery that contains works attributed to Rembrandt and Titian, a
guard was heard to say, "Ah—if ‘attributed to’ could be changed to ‘by,’ how much more the gallery would be worth!" (as art and in money).

What these examples signify is that people who buy and sell paintings make an economic calculation, just as people who buy and sell anything else do. What is calculated or decided is whether the object is worth what must be given up in order to get it.

THE ANTI-MARKET MENTALITY

This would not have to be said about art any more than about wheat were people in art and most of those outside of it not given to denying that the money value of art is consistent with its aesthetic value. They often go further and denounce the very idea of assigning a money value to it.

"To attempt an estimate of the money value of the contents of our museums would be an intellectual [sic] vulgarism. . . . A great collection is a service to society as free from the rules of demand and supply as the service of the law." This was said by T. R. Adam some fifty years ago.7 About twenty-five years ago the National Bureau of Economic Research wanted to know the value of the collections of museums when it was making an estimate of the capital stock of the United States. The Bureau was told by museum authorities that such an inquiry was out of the question because the collections consisted of objects that were "priceless and irreplaceable." Later the authorities relented but no doubt held to their initial view that art should not be valued on the market. The view is centuries old and is honored in the present. In a conversation with the director of an American museum that is highly respected and rich, I asked why the value of the collection was not on the balance sheet. "Because it is not for sale," he said firmly. I then asked, not innocently, if the building was for sale since its value was reported. He then said that what is most wrong about the art world today is the attention it pays to money values. I thought again of Trollope's heroine to whom the mention of money was distressing and reflected that the museum director, like her suitor, would be even more distressed if there were none to talk about.
The museums themselves have been charged with fostering the very attitude that the director deplored. The charge was made by Robert Hughes in the first Harold Rosenberg Memorial Lecture at the University of Chicago. They do this, he said, by calling attention to the price paid for their acquisitions. They are in fact not so inclined at all, as the National Bureau learned. Yet Mr. Hughes believes they are not silent enough and believes they invite visitors to think about money by the way pictures are exhibited, such as looping a velvet cord before a prized acquisition, which the Metropolitan did when it first hung Rembrandt's *Aristotle Contemplating a Bust of Homer*, acquired in 1961 at the then record price of $2.3 million, when the purchasing power of the dollar was about four times what it was in 1989. Is a guard always present where *Ginevra Benci* is exhibited because the National Gallery wants visitors to know it was costly or is he there because it is valuable? (On my first visit, he was staring intently at the painting—so I thought until he straightened his tie and combed his hair in the reflecting glass, using the picture as the most expensive mirror in the world.) The price of the picture is one of the very few a museum has come near to boasting about. “The cost per square inch of paint of the portrait ... is the greatest in the history of collecting,” John Walker stated in the catalogue of the National Gallery of Washington, of which he was director when the painting was acquired. That seems to warrant the objection of Mr. Hughes, at least for amateurs of the same disposition as Trollope’s young lady. So also does Mr. Walker’s remark about Rogier van der Weyden’s *St. George and the Dragon* that, “It was bought at auction, and the final bid represented a price of $26,552 per square inch.” He provides the dimensions of the picture, from which the spectator can compute the total price. However, this may be read as badinage. What is usual is for museums to keep a solemn silence about the value of their collections. Mr. Walker himself, in his autobiography, describes how the Leonardo was acquired, and does so in great detail, yet never mentions the price, nor does he offer any clue to it.

If museums were as far removed from the market as Mr. Hughes would have them be and ignored the money value of paintings as well as disdained it, they would not know where to place their guards, if they had any at all. Art thieves, however, know the value of pictures and would not be misled by which were protected and which were not. Insurance companies and police details are also informed, and
each in their own way and for their own reasons believes the money value of paintings is relevant.

Not so, however, was an outraged Englishman, L. J. Olivier, who wrote to the *Times* of London about its index number of art prices. The very height (depth, really) of commercialism and vulgarity (intellectual and other), he called it, and went on to say why. His objections are typical, even commonplace, but are stated with a brio that makes his letter noteworthy. His fervent hope is that in due time the "philistine businessmen... and wretched art journalists will be stoned to death with fake Etruscan bronzes." His Parthian shot is at the editor: "In the meantime, a curse on your loathsome percentages and despicable graphs, and shame on you, Sir."¹⁰

The fulminations of Mr. Olivier are in my notes under the rubric "Art Mentality," which comes within the larger class "Anti-Market Mentality," and that in turn is within the still broader class known to Neo-Austrians and others as the "Anti-capitalist Mentality." As this book continues, it will give other examples, more often of the species, Art Mentality, than of the genera, Anti-capitalist. I leave the latter to the followers of von Mises, as they are better suited than I to detect it, and from the former I turn for a time, yet not forgetting, as James Jeffrey Roche said, that "all love Art in a seemly way/With an earnest soul and a capital A."

Consider now what economics can say about what art is worth, or its value, specifically, whether the price of a painting is related to or determined or influenced by its intrinsic quality, merit, or aesthetic value. The question stated still more specifically is whether the prices of paintings are proportional (at least ordinarily) to their aesthetic value. For example, if for any reason the world of art believes painting A is superior to painting B, is the price of A likely to be higher than the price of B? The answer in my opinion is likely to be yes. That opinion rests on several kinds of evidence, namely, (a) private collectors are reasonably well informed about what they buy and sell, dealers are well informed, and major museums are very well informed; (b) while the market is not perfectly competitive—since works of art are not homogeneous—there is reason to believe the range within which prices are set defines the limits of aesthetic value; (c) prices set at auction and values given in tax inquiries are consistent with the aesthetic quality of the works; and (d) the prices received by the major artists of the present are consistent with the professional judgment that is made of their work.
Each of these kinds of evidence will be described in turn, that related to (c) and (d) in detail in this chapter, while that related to (a) and (b) will be summarized here and described in detail in chapter four which is about the market. I must first say that none is conclusive and at best is no more than strongly suggestive. The information that is available does not allow one to say with certainty that the prices of paintings are proportional to their merit as art. With one possible exception (the prices received by living artists), the information is not the kind that would be admitted to a workshop in econometrics. However, it is quite the equal of the information which the art world presents to support its conclusions—the conclusions of art historians, curators, collectors, connoisseurs, art administrators, critics, journalists, and others who write about art.

Many of these people—although, significantly, not all of them—believe the judgment of the market and their judgment have nothing to do with each other. "The enormously high prices that works of art now bring... bear absolutely no relation to the quality of the object, but then prices rarely do," said Hilton Kramer, a principal in New York art circles, in his contribution to the Arts Review, which the National Endowment for the Arts published in 1987. "The market value of a painting?" a curator at the Louvre said, repeating my question. "Poof—what does that mean?" she shrugged, as if no thinking person would ask such a question. Nonetheless she explained. The market value depends on whether the painting is hung in the Louvre or in a lesser museum, where it is hung and how often, what is its condition, if it has been repainted or otherwise restored or has been altered, where it was before it came into its present ownership, how certain the attribution is, and if it ever has been changed, whether the painting is interesting to art historians or whether the painter is, whether other works of his have been at auction and what price they brought, in whose private collections the painter is represented, whether he is being spoken of in the popular as distinct from the professional art journals (ARTnews as distinct from The Burlington), and if dealers are promoting or disregarding him.

These considerations were not every one of them named by the French curator, but all have been mentioned by people in art who have spoken about the price of paintings. What is interesting is that these considerations do not remove art from the scope of economics. What is said about the factors that affect the demand for art can be said about the demand for other goods and assets. For the
painting, substitute a common stock, and for museums substitute portfolio, or mutual fund, then ask which are holding IBM, in what amount, what is being said about it by Value Line and Merrill Lynch, what has its price been and what has been the volume of trading, are the services advising buy, sell, or hold? The only question asked about paintings that is not asked about securities has to do with attribution. There is no danger that what is represented as a share of IBM will turn out to have been issued by General Motors.

Yet there is also a form of uncertainty about securities—it is indeed the single and the great uncertainty—which is analogous to the uncertainty about the attribution of a painting. What is analogous is the yield, or return, or satisfaction, that each provides or fails to provide, and there is no certainty about what that will be from either. The earnings per share of IBM can fall or rise, and the satisfaction from a painting will change if there is a change in its place among all paintings, say, because its attribution changes. The collector who bought a Flinck which later is discovered to have been painted by his teacher, Rembrandt, will get more pleasure from the painting than he originally did, and if he doesn’t, he can sell it for much more than he paid and take pleasure in the profit.

The people in art, then, are not completely outside of economics. But they have some way to go before they reason entirely within it.

BUYERS AND SELLERS MISCONCEIVED

Among the more egregious misconceptions held by people in art is their notion of how the market operates (a misconception they share with much of the human race, unfortunately). They believe buyers do not know what they are doing, or do not know as much as they ought to know, and that sellers take advantage of the ignorance. That, on the face of it, is a solecism. Most collectors of art are on both sides of the market because they sell as well as buy. If when they are buying they do not know enough to avoid paying an excessive price, they cannot when they are selling know enough to charge an excessive price. The same person cannot be an ignorant buyer and a shrewd seller. Of course there are the dealers, the middlemen, the hobgoblins of misconceived economics. But they cannot, like a deus
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ex machina, be brought in to dispel the solecism. If one dealer can profit from the ignorance of collectors (and it would have to be ignorance about selling as well as buying), so can another dealer and another and another. They would be driven, regretfully but necessarily, to lower the price of what they sell, and raise that of what they buy. The result is that the collector, whether ignorant or knowing, pays no more than he need and receives no less than he must. In order for the outcome to be so happy there must be competition among dealers (and collectors). To believe there is competition certainly is plausible. There are hundreds of dealers and thousands of collectors. On either side, but not on both, there is profit to be made from conspiring to turn prices to the advantage of one or the other. There is, however, no evidence that any one has more price power than another has.

There is considerable evidence that the market in art is reasonably well informed, meaning by "reasonable" that the people who buy and sell spend time and money to inform themselves to the extent that the expenditure is worthwhile. A collector who had an eye on Rembrandt would not spend as much as a museum, and a museum would not spend as much as the Amsterdam research project, which itself does not have unlimited resources to invest in information. Major collectors usually are knowledgeable about their particular interests—knowledgeable about aesthetic considerations, about considerations of an art-historical nature, and of course about prices. Moreover, they often seek expert opinion about what they mean to do. How they go about doing it is described in chapter four. An interesting feature of American collecting is that much has been done by businessmen who have gone about it with the efficiency and dispatch that made their enterprises profitable and enabled them to become collectors.

Museums are the other component of the art market. No one would deny that considerations of aesthetics and art history govern their decisions to buy and sell. This does not mean each museum would assign the same value, economic or aesthetic, to a given work. To some it would be worth less than to others, because they have different goals, some are nearer than others to realizing them, and given the goals and the extent to which they have been realized, there are differences among museums in the value of information.
AESTHETICS AND ECONOMICS AT AUCTIONS

There is another kind of evidence of the consistency of economic and aesthetic value. It is that information about auctions is widely reported. That is in keeping with a standard proposition in economics according to which the more informed buyers and sellers are about a market the more efficient it is likely to be. The market for art is not efficient in the way the market for securities is efficient. There is no reason to believe it should be, because the cost of making it so would probably be greater than the gain. However, it is a market where bids and offers reflect the merit or esteem in which a work of art is held by critics, museologists, art historians, and connoisseurs.

About auctions there is abundant information, although, to be candid, an economist would like still more, and that is a statement or classification of the prices at which given works have been sold at different dates. What is available and is especially interesting is the classification of the works of an artist according to their authenticity: whether a given work was done entirely by him or very probably was done by him alone, whether it was partly done by him, whether by his students, by assistants in his workshop, or under his influence, or whether it is a work done in his style while he was living or later. In addition, there is information about where the work was before it came to the given sale together with the names of the buyer and of the auctioneer, the place and date of the sale, the material of which the work is made and what it is about (for example, painting on copper of two figures, landscape in background, dog lower left corner). In addition, there is of course the price, yet that, *mirabile dictu*, is not clear. Sellers may set a minimum or reserve price, and if the bidding does not reach it a bid is made at the reserve price by an agent of the auctioneer, and the work is returned to the owner. The fact may be reported later or discovered or may never be known. How many prices are real and how many are fictitious, the auctioneer and seller alone know. However, I would not be surprised to learn that most prices are actual prices; that is because sellers must pay the auction house a commission whether the work is actually sold or only seems to be.

The information about the market has a cost, and it is paid by the people who use, buy, and sell art. The information would not be collected, distributed, and paid for if the market was indifferent to
aesthetic quality. The art market is not indifferent, no more than is the museum world. There is, in fact, a striking resemblance between the way museologists classify art according to its authenticity and the way the market classifies it. The similarity is interesting to an economist and should also be interesting to people in art. I do not mean the market and the museums always agree on attribution or authenticity but that both attend to it closely. An instructive comparison can be made between Art Prices Current, a kind of trade publication, and the Census of Pre-19th Century Italian Paintings in North American Collections by Burton B. Frederickson and Federico Zeri (1972). Art Prices Current lists the sales of the work of any one painter in descending order of the probability of their being autograph (done entirely by the painter named), with those most probably so at the head of the list and at the bottom those not done by him at all but only in his style. Not surprisingly, the prices drop as one goes down the list. The Census reports whether the painting is autograph, if it is a copy, has been done by a follower of the painter, has been done in his manner, is of the school of the painter, whether the attribution is uncertain, whether the attribution is to more than one painter, or if the painting is an "imitation" which implies it is a forgery.

If the classification of a painting is changed, whether by the market or by expert opinion, the price is almost certain to change simply because (as I have been at pains to explain) the opinion of experts is the principal determinant of price. As this is written, the museums and collectors who own paintings by Rembrandt must be on edge because the Rembrandt Research Project of Amsterdam has been re-examining the paintings that have been attributed to him. Proceeding chronologically, it has studied ninety-three paintings he was said to have done between 1625 and 1631, and concluded that forty-two of them actually were, forty-four were not (of which eleven are in the United States), with the remaining seven in an undecided status. The study is continuing, and the final volumes, to be published after 1988, will report the findings about the work of the last twenty-five years of Rembrandt's life.11 The economic effect of removing a painting from autograph status is to reduce its value by as much as $1.5 million.

In view of the consistency of values, one would expect this effect to be noticed in the reports that are made about auctions. It rarely is. It was noticed in the report of the sale of the Rubenstein and Thompson collections in 1966. "Despite all of the intangibles of auction sales
the prices reached prove a good yardstick for judging the quality of
the material,” the report stated. Another rare notice, and one that
stated the consistency as clearly as it can be stated, is a report of the
brisk trade of the eighties in nineteenth- and twentieth-century Amer-
ican art. “Indeed, said Carl Jorgenson [a dealer] in Washington, D.C.,
‘The market really revolves around experts and expert opinion.’ It
works both ways, said Roger Howlett of Boston’s Childs Gallery.
‘They feed on each other,’ he said, with museums’ attention sparkling
interest in the marketplace and market excitement generating schol-
arly monographs.”

The consistency of values is also indicated by a practice of the
Internal Revenue Service, a surprising source of information about
aesthetics, but one to be noticed. It has an Art Advisory Panel of
twenty-five members who are dealers, museum officials, scholars,
and people from auction houses. They meet periodically to advise the
IRS about what it calls the “fair market value” of works of art that
appear on tax returns as bequests, gifts, or charitable donations. An
unsurprising feature of the practice is that the panel finds the value
of many of the works is overstated (in 1984, 71 percent of those that
appeared on personal income tax returns). What is more interesting
and may be surprising to the art world, although not to an economist,
is that the estimates which members of the panel make are similar.
That is, the scholars and museologists concur with the dealers and
auctioneers (not, in all likelihood, to the last dollar, however). Of
course they could all of them be wrong, or their estimates may have
nothing to do with how a historian or curator would judge a painting
from a purely aesthetic point of view. Conceivably they could, when
they estimate the proper price of a painting, imagine they were deal-
ers and wonder what they would do if they were not who they are,
but were someone else. Hume also could have been wrong when he
said a miracle is to be believed if to disbelieve it constitutes a greater
miracle.

VALUE AND PRICE IN CONTEMPORARY ART

The last kind of evidence that bears on the consistency of values has
to do with living artists: with the standing they have in the art world
and the prices of their work. This information was brought together from time to time in the 1970s by the late Willi Bongard of Cologne, an economist, art journalist, teacher, and man of parts. He made a judgment of the standing of an artist by noting the recognition the artist received in such ways as being in the permanent collections of museums, by one-man shows, group shows, by the notice received in periodicals and television, and by other marks of esteem. Dr. Bongard boldly assigned numerical values to each mark according to his estimate of its importance. Thus an artist was assigned 300 points for each work in a major museum like the Metropolitan and 200 for each in a museum not quite as major like the Art Institute of Chicago or the Stedelijk of Amsterdam; if the artist was mentioned in Art Actual he received 50 points and in Connaissance des Artes 10 points. This was done for a large number of artists, and the 100 having the greatest number of points were ranked according to their totals. Dr. Bongard then obtained the current price of a representative work of each of the 100 and added it to his compilation. The two numbers invite a statistical analysis because the point value of each artist is an indication of the aesthetic value of his work, and the price of a representative work is of course its economic value.

With the help of a colleague, I did a regression analysis of the information in order to see if the price of a painter’s work was consistent with the points assigned to him and I found it was. The correlation was far from perfect; but the results did show that as the number of points increased 10 percent, the price of the representative work increased 8 percent. [The coefficient of aesthetic value was .59 with t = 4.2, and R² = .25.]

The purpose of Dr. Bongard’s investigation was quite different from what I made of it. He did, to be sure, want to see if the market correctly measured the value of an artist’s work, yet not in order to make a judgment about the artists or the market but to discover if any were underpriced. He was looking for bargains. For each artist, the price of a representative work was divided by the number of points assigned to him, the result being the price per point. In 1976, the American Rauschenberg was first among the 100 with 20,490 points, and the price of a representative work of his was 17,000 West German marks (about $6,000 at the exchange rate then). Dividing 17,000 by 20,490 gives .83 or a price of 83 pfennigs per point. There were differences in prices per point among the artists (the average was 1.8) which follows from the fact that the correlation between total points
and prices was not perfect. The German Becher was at the bottom of the list with 5,170 points, a representative price of 500 marks, and a price per point of .09. That made his work a bargain since his price-point ratio was only 5 percent of the average of 1.8. Rauschenberg's work was also said to be low priced because his ratio was less than half of the average. The work of artists whose ratio was above the average was said to be expensive, such as that of the American sculptor T. Smith whose ratio was 2.7.

Those in the world of art who took notice of Dr. Bongard did not care for his inquiry. The artists themselves affected indifference but kept an eye on the periodic lists. An American who said he didn't care where he ranked fired off a lengthy cable after slipping down the list one year, Dr. Bongard related with amusement. Critics objected to his presuming to measure aesthetic standing or alternatively objected to the way he did it. Their main objection was to his relating the standing of the artists to their prices and to classifying artists according to whom among them gave buyers the most for their money. If Mr. Olivier was incensed by the mere reporting of prices, he would, had he seen Dr. Bongard's information, have been apoplectic.

To tell collectors where to get the most for their money is just what he meant to do. His "price-per-point" for an artist is analogous to the earnings-price ratio of a share of stock. He called his list of 100 artists the Kunst Kompass, and reported it from time to time in Capital, a business magazine published in Cologne. It was translated and republished elsewhere, including the Italian design magazine Domus, where the greatest bargains were described as convenientissimo. Dr. Bongard compounded his offense by offering collectors, at a price, a monthly letter about the state of the market for contemporary art. The letter was suspended after his death in 1985 in an automobile accident but will be resumed if the plans of his widow materialize.

Willi Bongard advised people how to maximize their return from art, or how to get the most for their money. Value for money, indeed! How irrelevant, Louise Lippincott said in Selling Art in Georgian London. She examined "how dealing and collecting advanced or detracted from the formation of the English school of painting," and she did so by "looking beyond the irrelevant question of whether the collectors received value for money." Actually she didn't ignore the question, and had she done so she would not have had much of a
book. It is about Arthur Pond, who was a painter as well as a dealer, and the collectors he dealt with surely thought the question was relevant. They could hardly have thought otherwise. Can one imagine the following conversation?

"Tell me, Mr. Pond, what is the price of that landscape?" "Price, Sir? The question is quite irrelevant, you know." "Irrelevant, Mr. P.? I say!" "Indeed, it is. What is relevant is how your purchase will advance or detract from the formation of the English school of painting. You must think of that, you know." "Just so, Mr. Pond, and I shall leave such thinking to you while I pop down the road to a chap who will tell me the price of what I fancy."

ART AS A COMMODITY

The "value for money" that buyers then wanted and still do (whether or not historians want them to want it) is simply the satisfaction the ownership of art provides—not simple in the sense that it is simple to describe but in the sense in which satisfaction was defined a few pages back. Art provides satisfaction, or utility, in the same sense that any object that is desired provides it. It is not the same for all objects, obviously, or does any one of them provide the same utility to everyone. What they all have in common is that they yield utility of some kind in some amount. That (again, as explained above) is what gives them value.

A painting can be regarded as a capital good if it is expected to yield utility, hence is expected to be desired for as long as it endures physically. Old Masters are of this category. An example is a self-portrait of Rembrandt. He did more than fifty, and all are esteemed. Are they an exception to the principle of diminishing marginal utility? No. Any one of them would be esteemed even more if the others did not exist or were found not to have been painted by Rembrandt. If a painting is not likely to be desired—to yield utility—for as long as it can survive physically, it can be regarded as a durable consumer good that is subject to obsolescence. That is a good which is discarded before it is worn out. Most art is in this category, and the reason is explained in the next chapter. An example is scarcely possible because hardly anyone would know anything about it. A
few will know there was a painter named Ambrosius Holbein, the son of Hans and elder brother of the younger Hans. If any of his work has survived, it is not well remembered.

Whichever a painting is—a capital or a consumer good—it is an object that in and of itself yields utility. It is valued for the satisfaction it provides someone. All consumer and capital goods are of this nature, for example, a house and the furniture in it, the paintings on the walls, and the land on which it is situated. They are called real assets. They are distinct from financial assets, such as a bank account or a share of stock. What the owner of a financial asset receives is interest or dividends or access to ready money (liquidity). What the owner of a painting receives is the satisfaction of owning it, which may be the pleasure of looking at it, of inviting others to look at it, of knowing it belongs to him, or knowing others know it belongs to him, of its being part of a collection that expresses the taste, knowledge, effort, and character of the owner, of its being something that will perpetuate his memory, or the satisfaction there is in some other consequence of ownership. Ultimately the satisfaction that is gotten from the visual arts is the visual experience they provide someone, whether or not he is the owner. If the satisfied person is not the owner, the owner nevertheless derives satisfaction from knowing that what he has is valued by others. What is not included in the satisfaction of owning art is an explicit money return, and that is what is provided by a financial asset. If a man buys a picture, he hangs it on the wall, and the return it yields is the pleasure he gets from its being there. If he buys a bond he puts it in a safe place, and the interest he collects is the return it yields.

The market value of both the painting and the bond may increase, and if they do, they will yield an additional return. But the additional return cannot have been expected by the market, that is, by other sellers and buyers. If it had been, the price of the painting and bond would each have been higher than it was: the collector would have paid more for his picture, and the bond holder more for his bond. This does not mean there can be no profit in buying and selling art or securities. There can be, and there also can be losses; and both are uncertain. If a painting or share of stock was certain to be worth twice as much tomorrow as today, the price would double today.

The distinction between real and financial assets is useful, as useful in the world of art as in other worlds. It is at the center of the
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explanation of why art is not a superior investment, as claimed, and why as a speculation it is even less attractive. It also explains why people who do not care for games of chance acquire art for its own sake and not for profit. The explanation, set forth in chapter four on the market, rests on economic theory and observation, not on morality.

SUMMARY: BEAUTY, TRUTH, AND THE MARKET

The argument of this chapter is that the value which the market places on works of art is consistent with the judgment which is made of their aesthetic quality, a term I use to mean beauty, historical importance, or any attribute other than price. In saying that economic and aesthetic values are consistent, I mean that if outside the market painting A is said to be superior to painting B then on the market the price of A will be higher than B.

In support of the argument there is evidence of several kinds. What museums offer to pay for a work is (given their means) determined by the judgment made of its artistic merit, which of course would include the suitability of the work for the collection of the museum. This fact would be acknowledged by people in art, certainly by museologists, but possibly not by living artists since they are in competition with the dead.

What is not readily acknowledged, or acknowledged at all, is that collectors are well informed. The stories are legion of how they indulge their bad taste with good money that ought to be spent on something the storyteller favors. However, a detached view of the information about collectors (a view detached from the anti-market mentality) indicates their choices too are governed by artistic merit (again, given what they have to spend). Their choices are naturally more personal than those of a museum, and that is explained by what each is trying to do as well as by how ably each can do it. A curator who makes a recommendation no doubt thinks of what others in his profession will say about it. A collector of course may wonder what other collectors think of his pictures. But his standing in the world where he makes his income is not likely to be affected by their opinion.
Just who painted a picture is considered when a judgment is made about its aesthetic value. That the value is consistent with economic value is indicated by the fact that when the attribution of a painting changes its price usually changes. There is additional evidence of the consistency in the close attention paid both by the market and by people in art to the question of how nearly autograph a work is (done entirely by the artist, done in part by assistants, by students, and so on).

That does not complete the evidence. There is also the fact, minor but not insignificant, that when museologists and historians are called on to estimate the value of a work that figures in a tax return, their estimates are similar. Then there are the findings of Willi Bongard about the standing of living artists on the market and in the art world. They indicate that the price of a representative work is higher for artists who have received greater recognition (by being in permanent collections of major museums, for example). The prices are not perfectly proportional to recognition, as Dr. Bongard measured it, but close enough to show a statistically significant correlation.

Whether or not the argument is granted—that the market recognizes aesthetic value as much as the art world does—everyone will agree that when works of art are bought and sold they have a price. The price represents the value of an object that provides something or other to those who pay it; if they got nothing from the object, they would not pay anything for it. What people do receive from the art they pay for is pleasure, pride, instruction, enlightenment, inspiration, or any other kind of utility as economists use the word, to mean a return of one kind or another. That return is the yield from art, and in principle it is measurable. If a collector spends $10,000 on a painting instead of buying bonds that yield 7 percent, he is giving up $700 a year. If he believes the painting is worth what he gave up in order to get it, as he must if he buys it, the yield from the painting is at least $700.

If one does not grant the argument, that is, if one denies the market recognizes aesthetic value, one nevertheless must grant that people who buy art get something from it, including aesthetic pleasure, even if it is not related to what is paid for the art. Art, then, is acknowledged to yield a return. What yields a return is either a capital good or a consumer good. A work of art is capital if it yields utility as long as it endures physically, that is, until it deteriorates if
it ever does. If before it deteriorates the interest in it passes away, it no longer yields utility to anyone and it is a consumer good that is subject to obsolescence. Most art has been of this kind. The world lost interest in it sometime after it was made, let it fall into neglect, then discarded it. Whichever a work of art is—capital or consumer good—it is a real asset. That is an object which is valuable in and of itself. It is distinct from a financial asset, like a share of stock, which is a claim against a real asset and is valuable for the dividends it yields.

The distinction between real and financial is the distinction between an object and the claims against it. Art, as explained in chapter four, is a lackluster investment, and as a speculation is not attractive except to people who relish risks, as many seem to do considering the popularity of lotteries. For others, the “gain,” “profit,” or “return” from art is the satisfaction it offers as an object. The satisfaction can be aesthetic in the narrowest or in the widest sense; it can be moral or didactic or heuristic; it can be of the earth or the heavens, subjective or objective, calling people to action or turning them in upon themselves. Its essential feature is that it comes from the object itself and not from the money income of a claim against an object.

Put simply, the most certain value of art is art itself. That has long been urged on grounds of morality. Here it is urged on economic grounds.