# A Most Ingenious Paradox: The Market for Contemporary Fine Art

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How quaint the ways of paradox!
At common sense she gaily mocks!

(Gilbert & Sullivan "The Pirates of Penzance" Act II)

This paper is about a market where producers don't make work primarily for sale, where buyers often have no idea of the value of what they buy, and where middlemen routinely claim reimbursement for sales of things they've never seen to buyers they've never dealt with. Welcome to the market for contemporary fine art.

This paper will describe the quality of economic decision-making in the art market, and explore the issues of personal identity, economic rationality and consumer risk. At the most abstract level this is a standard economic anthropology analysis of behavior that appears to be economically irrational, but which makes sense when the full cultural context is understood; while the specifics are different, the basic economic processes are similar to those in markets for any luxury or collectible items (cf. Savage 1969; Rheims 1980). The ethnographic material presented here is from a study of artists, dealers and collectors in St. Louis, MO in 1992, which is taken as a representative example of local art markets below the dominating center in New York City.

**Fine Art as Commodity**

While most people may interpret the term "art market" to connote the high end of New York's (Paris', London's, …) elite galleries and auctions, in anthropological style I will focus on local markets, where the bulk of the nation's artists, dealers, and collectors participate.[1] Serious, professional fine artists make what I call "museum-quality" art, which could in principle be exhibited in the hegemonic center of New York City and in major museums, and be sold by elite galleries in art centers in this country and abroad. New York is hegemonic because aesthetic/art market value is created by the attention of key critics, curators, dealers and collectors. Art not shown in New York loses value for that reason alone, irrespective of the features of the work itself.

The overwhelming majority of artists do not enjoy much, if any commercial success. These artists make art because doing so affirms their identity as artists, not because they expect to earn a living from it. Although dedicated artists may dream of supporting themselves from the sale of their art, most earn a living by teaching (if they are lucky) or by a range of occupations from graphic designer to waiter or taxi driver, or else subsist from the regular earnings of spouses.

Fine art is a special sort of consumer good, whose existence is supposed to "expand civilized consciousness" (Simpson 1981), and whose possession is supposed to demonstrate the owner's high cultural standing. This is because art, as a non-utilitarian good, occupies a higher cultural position than merely useful things.[2] When they enter the market as commodities, art objects are "Veblen goods" that often signal the owner's high cultural status (Veblen 1934). A high price functions as an indicator of high elite value, rather than as a result of scarce supply and high demand. Buyers of contemporary art range from connoisseurs whose knowledge and love of contemporary art is so impressive that they can and often do become professional dealers, to people who care as much for their art as for their furniture, seeing both as decoration. While many art world participants like to claim that art is a unique commodity, this analysis will show that the strange elements of the market are understandable as the results of standard issues, identity and risk. The paradox of the introduction will be clarified as the interplay of different goals and constraints that are familiar in many situations in addition to the art world.

## A Model of Local Art Markets

This paper focuses on the market for local or non-investment art as distinct from the market for blue-chip or investment quality art. I will define local art markets conceptually by two dimensions: the motives of producers and the knowledge of consumers. This will lead to the local art market model of identity producers, making art commodities because they love the work, and risk-averse consumers, many of whom might value original art on their walls but who do not enter the market because of their ignorance of economic value in art.

In the standard market situation producers offer things for sale primarily because they want income, and buyers have access to enough information to assess the value of the things they seek (see Table 1). The market for most manufactured commodities, such as new cars, is a good example. The producer is in it for the money with no pretense of building culture. The buyer knows the reasons why a Mercedes costs more than a Mercury -- better engineering, finer materials and more expensive manufacturing quality overall as well as the <u>panache</u> of the name. Consumer risk is normal because motives are congruent -- producers want to make things that consumers want to buy. If consumers don't buy their goods producers may blame the buyers' ignorance and short-sightedness rather than their own faulty products, but there is little cultural or institutional support for a continued failure to make things that people don't want to buy.

Markets where producers are involved mainly for money but where consumers do not know the value of the product -- either because of structural features or because the rules of value are confused, contested, or unclear -- are also familiar to us: for example the market for a boatload of fish as described by Wilson (1980). Here the buyer as well as the seller can not know the value of the fish without unloading the boat, which of course involves deterioration in the quality of the product. In these sorts of asymmetrical information situations the market will fail without institutional support, because buyers will not buy and sellers will not sell at a price they both agree is fair. The solution is to develop mechanisms to deal with the risk, such as personalized, equilibrating long-term economic relationships (cf. Plattner 1985).

Some producers make work primarily because their identity and self-respect are defined by their work. These people may want to make money, but their involvement with their work derives from identity rather than money. They may be said to be addicted to their work -- economists use the term "psychic income". Some ethnographic quotes from St. Louis artists will illustrate this:

> <u>"Its not a job at all, its what I do, its what I am. So basically I spend as much time as I can here</u> [the studio], <u>it comes before anything else. ... My strongest feeling is that I make my art because I'm driven to,</u>

I have to. If I don't make it, you might as well lock me up in the crazy house. If nobody buys it, nobody reviews it, that's OK, I don't need it. On the other hand, its wonderful to be noticed, wonderful to have people want your work." [Artist, supports herself through free-lance media work, Interview #52]

"When I'm doing my artwork, I'm not saying its like a psychiatrist, but it keeps me sane." [Artist, full time faculty job, Interview #131]

An artist who was able to support himself from selling paintings summed it up:

"Given a choice between selling everything we do without exhibiting it and being able to show everything with no sales at all, we would go for the second option" (McGarrell 1986. He was a full professor at Washington University-St. Louis Art School)

This sort of personal identity relation to one's work is of course not limited to artists. Most people know professionals such as some academics who work very hard and single-mindedly without much attention to their income. For example, a young academic colleague told his mother of the publication of his first professional article. Her question, "How much will they pay you for writing that article?" showed her misunderstanding of his goal of advancing scholarly knowledge.[3] Likewise friendly advice to artists whose work does not sell to make more popularly acceptable work, perhaps pictures of cats and dogs, ignores their major problem of establishing and maintaining identities as fine artists. Identity producers like academics and artists certainly value income, but normally would not consider increasing their income by other work like selling real estate instead of practicing anthropology or making art. They rationalize their lower income by affirming their identity as cultural producers advancing the public cultural heritage, instead of economic producers advancing their private economy.

Markets for the products of identity producers can be distinguished by the clarity of the rules of value. Consumers of the work of investment-quality contemporary artists, whose work is commonly sold at public auction in elite auction houses like Sotheby's or Christie's, have full information about price trends and prior sales. Certainly each piece of art is unique and people commonly lose money buying "blue-chip" art, but that is because they misjudge the market in the same way that they could misjudge the market for pork belly futures, not because the rules of value are opaque. Similarly college Deans assure faculty that the reasons why professors are paid differently from each other are in principle clear and established, if in practice they are complex, often confidential, and contested.

The rules of aesthetic value are unclear for the overwhelming majority of local art that has not entered the elite market. The average upper middle class consumer with enough disposable income and cultural capital to value buying original art would be totally at a loss to explain why one water-color painting is worth \$300, another \$3,000, and a third \$30,000 while the size, shape, quality of materials and other visual attributes may not vary significantly. None of the pieces would have the public auction record to establish their investment quality. How is a buyer to know why this large watercolor of flowers in a vase on the dining room table is a bargain at \$25,000 while this practically identical appearing work on paper is over-priced at a tenth the cost? I define this market of identity producers and confused consumers as a local art market. It is composed of an enormous number of producers relative to their actual sales, and a relatively tiny number of consumers daring enough to enter the market.

**The Growth of Local US Art Markets**

The American art institution of artists, exhibition spaces, art schools and art dealers grew explosively in the post second world war period (until the market crashed in 1990) as a consequence of the country’s enormous growth in wealth and with the influx of European influences. In this section I will outline the growth of the US art world, which resulted in the current plentiful supply of artists. In later sections I will discuss collectors and dealers.

New York art became dominant in the world market during this period.[4] At the same time the conflict over value that had been growing in the art world in the end of the nineteenth century developed into our current post-modern state of affairs, where the dominance of any single theory, genre or form is questioned. While the rules defining excellence in art were becoming more confused and contested, the number of people making art was increasing dramatically. More and more people were making art to sell to the fewer and fewer people who felt confident that they knew what to buy.

American art moved from the fringes of "bohemian" life towards the center of middle-class values during the post-World War Two period. Sharon Zukin (1982) pointed out that high prices for the few successful artists' work "...enabled them for the first time in history to make a living off a totally self-defined art." (p.96) Zukin cited the artist Larry Rivers saying, "one could go into art as a career the same as law, medicine, or government" in the early 1960s (p.97).[5] The sales prospects for art seemed so rosy that the avant-garde dealer Samuel Kootz put on exhibitions of paintings at Macy's and at Gimbel's department store (Marquis 1991:235-6). Even Sears and Korvette's (a discount store in New York City) tried to sell art between 1966 and 1971 (Zukin 1982:99-100). Zukin argued that art had become a part of middle class life. Artists "saw the same world that the middle class saw: a 'continuous past' made by rapid social and technological change, the passing of industrialism...and a mass production of art objects and cultural standards".(p.97)

By the 1990 census, 213,000 adults in the US identified themselves as "painters, sculptors, craft artists, and artist printmakers". Over the 20 year period 1970-90 artists increased by 145% while professional occupations at large increased 89% and all jobs increased 55%. An increasing number of artists had higher education. By 1989 there were 1,146 institutions in the US offering Bachelor's degrees in visual and performing arts, and 362 institutions offering Master's degrees.[6] Over the 19 year period from 1970 - 1989, these institutions graduated 733,099 Bachelor's degrees and 157,982 Master's degrees in the visual and performing arts. Of these I estimate that 42% of the Bachelor's (307,900) and 33% of the Master's (52,134) degrees were in the visual arts.[7] On an annual basis, this is an average of around 16,205 Bachelor's and 2,744 Master's degrees in the visual arts alone.[8]

The increase in educational opportunities was paralleled by museum construction. More than 2,500 new museums opened between 1950-1980 (Marquis 275). Fifty-eight percent of 749 arts organizations (museums, art centers and corporate collections) studied by Crane in 1987 were founded after 1940, and over one third were founded after 1960 (p.6). Between 1960 and 1975 the number of dealers and galleries listed in the NYC telephone book almost doubled, from 406 to 761. Crane examined the date of origin of 290 New York galleries she identified as specializing in avant-garde contemporary American art. She found that 80% of them were started after 1965. She also summarizes estimates of one-person exhibitions per year in New York from 800 in 1950 to almost 1,900 in 1985.

The growth in the post-war US economy allowed many corporations to use some of their wealth for art collections. Since the 1960s, corporations of all sizes increasingly began to collect art (Martorella 1990). While most of these collections were closed to the public, the IBM corporation opened a public exhibition space in New York which put on important shows.[9] Except for the very largest and wealthiest, most corporations did not have specialists on their staffs. An new niche in the art market was created for "art consultants", who specialized in buying art in bulk, as well as in curating and conserving corporate collections.

The State legislative appropriations to state arts agencies went from a US total of $2.6 million in 1966 to $292.3 million in 1990 (reduced to $214.7 million in 1992). By any measure the growth in public investment in arts has been impressive. The increased wealth of the US economy was clearly associated with a booming interest in the arts. The high end of the market, consisting of elite gallery and auction sales of investment quality art, led the stratospheric rise until it crashed in 1990. The causes of the crash are not relevant to this paper (see Watson 1992 for an analysis) as neither the boom in prices and sales nor the bust was as extreme in the local art markets as they were in the center. However the crash did reinforce the perception that buying art is a risky proposition, best left to those who truly love what they collect.

## The van Gogh Effect

The United States in the post second world war period was a mighty engine for creating and viewing fine art. But by all available measures the vast majority of artists could not earn a living from sales of their art. In the St. Louis case, for example, the census category of "painters, sculptors, craft artists, and artist printmakers" totaled over 2,200 in 1990. In my 1992 study I identified about 800 artists as "serious" fine artists, meaning they were somewhat active in showing art and in arts organizations (I assume the rest of the people censused were commercial and craft artists). Less than 40 showed their work in galleries outside of the city, and only about 5 showed in New York, both standard criteria that artists use to identify "real" artists. Perhaps 1% could support themselves from the sale of their art, the rest subsisting from teaching either full- or part-time, and in other art-related jobs. Practically all the artists who were not working full-time as teachers or in other jobs relied on the incomes and health insurance of spouses with steadier incomes.

There are few comparable empirical studies of the economic success of fine artists. Simpson, in his study of SoHo artists, estimated that 94% of the artists in New York "<u>are not...significant sellers</u>" (1981:58). One national survey was done in 1988 in 10 locations across the US from New York City to Los Angeles. Information was reported from 4,146 respondents who returned mail questionnaires in all art fields including visual and performing arts and literature. Seventy-nine percent reported earning $12,000 or less annually from art (Jeffri 1989). A 1978 NEA study of 940 visual artists in Houston, Minneapolis, Washington DC and San Francisco reported 88% of painters returning mail questionnaires earned $10,000 or less from art (NEA 1984).

How can all these artists maintain their identity producing art that nobody buys? The key to understanding this is best shown by the cultural history of the work of the Postimpressionist artist Vincent van Gogh. Although his brother was an art dealer in Paris, the center of the art world in the late 19th century, van Gogh sold only one painting in his lifetime. His work was despised and dismissed by all but a few faithful friends and supporters. One hundred years after his death his portrait of his psychiatrist, Dr. Gachet, sold at Christie's New York auction house for the staggering price of $82.5 million, the highest price ever paid for a work of art in a public sale. Even if contemporary artists don't know these specific facts about van Gogh, fine arts culture is constructed upon the story of the rejected artist whose work is ultimately recognized for its greatness.

Van Gogh is the most commercially successful example to date of work stemming from the Impressionist movement in art, which has been influential in shaping the modern art market.[10] Impressionism developed in Paris during the latter half of the 19th century. The Impressionists showed their works in a series of exhibitions independent of the official Salons, culminating with their last group show of 1886 which finally established their acceptance by key critics and collectors. Their work was originally seen as scandalous, rejected by the art authorities and reviled by the public. But they were supported by a few key dealers and friendly critics. The dealers' gallery exhibitions labeled the Impressionists as a unique art movement and highlighted them apart from the masses of paintings in Salons. Although much of the publicity was negative, the artwork was well-known and notorious. In a modern marketing sense, the Impressionists, their dealers and critics created their own brand name (e.g., Green 1987).

The world market for contemporary fine art was centered in Paris, where prices for contemporary paintings could be fabulous. Meissonier, the Preimpressionist French Academy art star, sold a painting to Vanderbilt in 1887 for the current equivalent of $1.5 million, and the Preimpressionist Barbizon art-star Millet's painting sold in 1890 for the current equivalent of $5.2 million (the artist had died in 1875). By 1912 the Impressionist Degas' painting sold to an American collector for $95,700 (equivalent to $5,000,000 currently), a world record at the time for a work by a living artist.

The Impressionist movement in art (and its precursors) demonstrated that dealers and supporters of avant-garde artwork could enjoy significant profits. The dealer Durand-Ruel believed in their importance and bought their paintings in exchange for subsistence stipends. This great dealer lived to see prices reach extraordinary heights. A group of elite young Frenchmen known as the "Bearskin" collecting club, bought Impressionist art collectively beginning in 1904. In 1914, after only ten years, they auctioned the collection off for four times what they had paid. A quarter of the auctioned works were bought by members of the Bearskin group themselves, who complained that they would have bought more but for the high prices (Watson 1992). These fabulous profits from the purchase and resale of works of art that were so recently disparaged, and the cultural legitimacy they implied, had a great impact on the modern art world.

**The Death of Critical Authority in the Art World**

The Impressionists and their successors showed that going against the received wisdom in contemporary art could be profitable for artists, dealers and collectors. Potential taste-makers in society learned that the negative opinions of major critics and gate-keepers, who had dismissed the Impressionists' work because of crucial flaws and inadequacies, did not necessarily undermine the eventual success of the work from an aesthetic or market perspective. Impressionist art went from being so outrageous that coachmen on the street were seen loudly insulting a Monet painting in a gallery window to being valued, respected and emulated in a relatively short period of time.[11]

This was a powerful lesson. Work rejected by both elite and popular taste could prove to be a good aesthetic choice as well as a profitable investment without too long a wait. If the critics of Impressionism were so wrong, if their cries of almost moral outrage over the apparent incompetence of Impressionist artists turned out to be merely the complaints of orthodoxy incapable of accepting change, then the claim of other critics about ineptness or fraud in contemporary work would be suspect also.[12] This proved to be the case with succeeding art styles like Abstract Expressionists and the Pop artists in the US decades later. Perhaps the most famous case was the Robert Scull auction of Pop art in 1973, where work that was recently disparaged sold for up to 90 times its original purchase price of just a few years before. There were many similar cases of extraordinary appreciation of avant-garde art prices in the post Second World War era, until the art market crashed soon after the van Gogh sale in 1990.

The van Gogh effect on aesthetic authority is exemplified by a contemporary critic in Artnews, a major contemporary American magazine. He concluded a 1993 review article on the work of the controversial artist Jeff Koons with these words:

> "most of the ...objects struck me...as purposely dumb and perverse, acid, totally aware criticisms of the needs and preferences of the Great Western Unwashed and of the attitudes of smirking, sophisticated collectors willing to pay huge prices in order to mock the bad taste of their inferiors."

This is pretty serious and negative. But the final words of the critic's essay are surprising:

> "But that's not the way they strike [the artist] Jeff Koons...or, indeed, the way they strike many of his critics. If these things seem to you either desirable or profound, I know of no way to persuade you that my response is worthier than yours." (Littlejohn 1993:94, emphasis added)

Of course, it is the critic's job to persuade readers of the salience of his taste. The abject admission that a critic had "no way to persuade" means that he had no theory of good-and-bad in contemporary art, no accepted set of aesthetic values to which he could refer. I think this lack of hegemonic values is part of the impact of the Impressionist's success.

People gradually realized after the Impressionists that much art criticism, meaning pronouncements about art quality by elite connoisseurs, had lost its authority. If so many of the "important" critics and curators were so wrong about the Impressionists, why should today's commentators be different? This caution primarily affected those who were negative about new work -- why should they be any less wrong than their predecessors who rejected the Abstract Expressionists, Pop Artists, conceptual artists, or any other of the styles that aggressive artists and dealers pushed on the art-buying public? The underlying lesson was that it is dangerous not to "embrace the new". If a respectable authority did not appreciate the new art, and it later became successful through the efforts of other critics, curators, marketers, and collectors, the so-called authority risked looking foolish. This fear encouraged an (un)critical rush to be the first to recognize the merit of the newest trend (which then engendered its own backlash of critical complaints that "the emperor had no clothes", that much of contemporary art is, in fact, aesthetically vacuous -- Hughes, 1991).

The mistrust of a dominant critical authority lead to a problem: the only available short-run measure of artistic significance, aside from the opinions of critics and curators, was market success. The market defines success in the present, and the lesson of the Impressionists was that market failure today does not necessarily mean that the work will have no artistic significance in the future. Van Gogh's fall and subsequent rise has been taken to heart by the art world. The Preimpressionist academician Meissonier, the Victorian Alma-Tadema, and the many artists like them who were stars in their lifetimes whose work sold for the contemporary equivalent of millions, yet whose aesthetic significance is trivial now, are important lessons. Artists today might not remember their names, but the lesson that absence of market success in the present does not have to mean future artistic irrelevance permeates the value system of the contemporary art world. Good artists don't necessarily sell paintings, and all of the paintings that sell -- even for high prices -- are not necessarily good. Only the long run of history can affirm aesthetic significance. This understanding encourages artists to persevere in the development of their work, and not to be devastated by negative criticism or market rejection.

**Post-Modernism**

Although I argue that the problem of identifying value in paintings flourished after the Impressionists, this experience is part of a social change that has transformed the nature of contemporary high culture. Cultural life is "post-modern", meaning that the aesthetic rules that governed Modernist art (including all the arts from architecture to music and literature) have lost their hegemonic authority (Herwitz 1993). Self-referentialism, pastiches and other sometimes playful and ironic values govern the high end of contemporary taste. Thus the general cultural environment is no help for someone looking for clear rules of value in cultural products. Pop art, Op art, Earth art, Installation art, Performance art, Minimalism, Pattern-and-Decoration, Photo-realism -- art styles have whizzed through the art market at what seemed to be lightning speed. A collector may enter a gallery whose high white walls and impressive spaces connote a sacred place to find small brightly colored cubes of wood attached to the walls, or the floor strewn with mass-market candies. These works may have price tags of $2,500, or $10,000 and up. The dealer says this is brilliant work, made by an emerging artist who will soon be an important force in the New York art world, a new Warhol. What is one to do? Serious, committed collectors find themselves in the position of the St. Louis connoisseur who admitted,

> "It's always hard to say [about a new work of art], 'Oh boy, this is rotten', because then you have to eat your words a couple of years later." (Interview #6)

I have argued so far that the US economy has supported a fantastic and dispersed growth in art institutions and art producers in the past half century at the same time that the longer history of the high art market had weakened the hegemonic authority of critics and value-authenticators. This produced the current situation in local art markets of many serious, “identity” art producers who are unable to make a living by making art. The reason is that potential collectors are frightened out of the market by the consumer risk involved in buying local fine art. I now turn to the collectors’ situation, the difficulties in interpreting the price of contemporary art, and the role of dealers.

**Collectors: Legitimacy and Risk**

The consumer standard of reducing risk in buying art is whether the art has "legitimacy". The best way to explain this is by the case of a St. Louis banker, who bought art occasionally but was not sophisticated. The banker remembered buying his first painting while on vacation in Michigan in the 1950s. The gallery was asking $500, the equivalent of almost $3,000 in current dollars. He thought of calling the Guggenheim Museum, in New York City, to ask "if they knew of this artist." Whoever he spoke to recognized the artist's name and said that he was a "legitimate artist":

> "It makes common sense. I'm buying the painting because I like it, but I don't want to be had. I don't like making mistakes. It would be different if I went to [X, a local dealer] where I know the gallery. If I'm buying a diamond, I want to be sure the diamond is flawless. I can't see that, I have to rely on the dealer. I bought the painting because I liked it, and my ideas were supported by the fact that he [the artist] had some recognition, he had legitimacy... I wanted to be sure I was doing the right thing." (Interview #75)

Collectors, like shoppers in any market, seek security by consulting trusted experts, by reading publications about the work, and by seeing the work marketed in larger markets. A collector mentioned considering a piece of art:

> "It had been on the cover of Life magazine, one of the "Emerging fine American young painters"... I had legitimacy, the guy was on the cover of Life... So I bought that painting." (Interview #127)

A lawyer told how his confidence was raised in the value of some work:

> "The next piece I bought ...[was by] a young artist in New York. [The local dealer] called me up and said that he was having a show and that there was a piece he wanted me to see. And he was very excited about it, and showed me the piece, showed me some articles published in art magazines, an interview with [the artist] and told me more about him. and I went ahead and bought it [for $4,500]... When I was in San Francisco ... I went to [an art] gallery and she had a [piece by the artist] and that was a real wonderfully reinforcing moment for me, and increased my respect for [the local dealer's] opinions. Also, again, it made me feel a connection to an art world that's larger than St. Louis." (Interview #42)

Legitimacy means status in some market larger than the local place, so that the buyer's interest in the work is shared by a larger set of collectors. Potential buyers are reassured by the knowledge that the work is sold and written about in a wider social context than they see it in. The larger the set of people who know about that artist's work, the more likely a buyer is to find someone with whom to discuss the work and increase his or her own enjoyment, and the less likely to be deceived about the work's value.[13] If the price initially seems too high but the dealer provides information about sales of comparable pieces by that artist at comparable prices, backed up by museum exhibitions and published reviews or citations in books and articles, then that piece's cost is set into a context which supports the value.

The concept of legitimacy points to two aspects of the economic value of art: the current price and the resale potential. The collector must assess the current price-value equation, to decide whether the stated price is appropriate for that particular piece of art. How is one to know what a fair price is?

**Explaining the Price of Art Works**

On the broadest level the style of the work affects the price. Contemporary realism is less expensive, other things being equal, than other styles of painting, and art-crafts (high art work in craft materials like clay, glass, or fiber) are cheaper than sculpture and painting, for example. (Crane 1987, Table 6.2 gives data on auction prices by art style in painting.) Some collectors find themselves driven out of painting and into art-crafts by the high prices. They shift their collecting into newly emerging art-craft areas where they feel that they get more "masterpiece" value for their dollar:

> "Now, I can buy a pot for $5,000 [made by] one of the 3 or 4 world's top ceramists. Do you see? Now, not that painting is not worth that on today's market, and I don't mean to denigrate the work in terms of decreasing the price, but by comparison there is a disproportionate value of the dollar in the market. And ... we can acquire masterpieces in clay that we could not acquire in painting." (Interview #60)

The "other things being equal" include factors in the history of an artist's career. The more shows and prizes won and their level of prestige, the higher the elite status and number of galleries handling the work, the higher the connoiseurship of other collectors owning the work, the more articles, monographs, and other media attention, the higher the prices. Within any artist's price level, the physical attributes of the work, whether it is on paper or canvas if a painting, its size, medium, the existence of multiples and use of expensive materials all affect the cost of a specific piece.

Frey and Pommerehne (1989, ch. 6) tried, but I think ultimately failed to explain the variation in art prices in the elite, international market[14] They coded auction prices for the works of 100 "top" international contemporary artists in 1971-1981, chosen by their high standing on several measures of accomplishment. Their regression analysis explained the variation in the price of 987 works of art by a complex factor they called the "aesthetic status" of the artist, estimated by coding the artist's style -- Pop art, Op art, New Realism, etc.-- number of exhibitions, prizes awarded, years of experience, and past prices. They also coded other factors including the medium (sculpture, painting, graphics), quality of material, size of the piece, advertising activity of the gallery, real rates of return from stocks and bonds, income, inflation, whether the artist's gallery was one of a small set of avant-garde galleries, and whether the artist was alive. Their regression accounted for about three-fifths of the variance, but the price variable alone accounted for sixty percent of the outcome. Explaining current prices by past prices is reasonable, but not very enlightening about the causes of the past prices, which is the crucial question. The combined effects of the important non-price variables of style, history of exhibitions and prizes, etc. explained less than 10 percent of the variance. While one may quibble about technical details of their analysis, they have done about as well as anyone in identifying the major factors which determine high prices in the elite market for contemporary art, and their analysis seems valid for local markets also.

When all is said and done, the explanation of prices is not well understood and the difference between an artist who is "hot" and one who is not either in local or elite markets is fairly enigmatic. After the fact, the success of gallery and museum shows, attention by the media, etc., trace the course of an artist's prosperity. Dealers and connoisseurs use this information to assess prices. But it seems extraordinarily difficult to predict success before the fact. Singer found that only one in three artists whose careers began with shows in elite galleries made it to the auction market, a reasonable definition of artistic market success.(1990) Of course the majority of artists never show work in professional galleries, only an insignificant proportion of those who show at all then make it into elite galleries in any urban area, and proportionally fewer yet make it in the New York market. The information base of prior shows, reviews, prizes and collectors needed to assess the price of local art is very thin, which appears to increase the risk for local buyers as compared with buyers in the hegemonic centers of the art world. Many local buyers feel that they are better off shopping in the center. A St. Louis collector was typical: "I don't go looking in galleries in St. Louis. I generally feel that if I'm going to look, I'm going to go in New York, where I can see what really is going on." However the truth is that except for the proportionally few pieces of investment quality art which are auctionable and have a resale value, most art sold –even in New York-- is "local" in the sense that it has no resale value. The problem of valuation is general throughout the art market, below the "blue-chip" investment-quality level.

**Dealers: Splitting the Deal**

The difficulty in assessing value in local art markets is shown by market conflicts over the responsibility for specific sales. Dealers who represent artists commonly insist on a monopoly over all regional (or national) sales of that artist's work, meaning they demand their commission (typically 50% of the gallery sale price) on all sales. Artists commonly face the dilemma of what to do about sales to personal acquaintances; in the extreme case, a sale of a work in the artist's studio to a client who has never set foot in the gallery or spoken with the dealer. Dealers insist on a (sometimes reduced) share of such sales on the grounds that their sponsorship of the artist and support of the artist's career through advertising and exhibitions helps to establish the value of the work in the market (in the absence of the record of exhibitions, prizes, presence in elite collections and publications ideally found in the metropole). Therefore, they argue, the dealer should be reimbursed from all sales, even to persons they have never met.

The flavor of the decision-making is exemplified by one successful St. Louis artist describing her negotiation with her dealer over a commission on a sale that happened outside the gallery (this artist's income is assured by her full professor's salary):

> "I said 'You didn't get this [sale] for me.' I said 'I got this and besides I got it before you were even in my life.' And he said 'Yes, but... you know, you wouldn't be who you are if you didn't have [me as your] dealer.' And I said 'Well, of course.'
> And I always give him half of anything that I sell here in town. I've been very clean about this. But this bothered me a little bit... I said 'Look, you're my hobby. Making the art is my job, selling it is really a hobby, and I said, 'You're a very expensive hobby...' On the other hand, it works out very well. He's been real good for me... Since January I've made $20,000... I'm doing fine.
> ... What he did was, he gave up half of his half. So he took 25% ...of the sale price... So I wrote him a check for $500 and now he's happy. I don't think he's happy, he wanted more than that. I said $2,000 for the piece. Half of that would be $1,000. Half of that would be $500." (Interview #116)

In cases of conflict, artists will interpret the gallery's role more narrowly, expecting the gallery's involvement in the transaction by recruiting the customer and making the sale, while the dealer expects a cut of all sales. Clearly this is a situation where relative power will count -- the artist with no other dealers and fears that she will be dropped from the gallery faces a different practical and ethical dilemma from the artist with a national reputation, dealers in other cities, and the easy facility of joining other galleries.

The shoe is on the other foot in conflicts between designers and dealers over a share of art sales. Interior designers will offer to decorate their client's walls with art in the same way that they help them choose furniture. Their status in the contemporary art world, where "decorative" is often an insult, is fairly low. A dealer in St. Louis told me his opinion of designers:

> "Designers are evil hateful people. Write that in your notes."

His contempt was not for their aesthetic taste, but for their business practices:

> "Designers are the type of people, that, lets say, I [as a customer] hired a certain designer to help with my living room, for instance, ... let's say that then I walk into [X] gallery, and ... on my own, I buy some art. ... Then, I'll call the designer, or the designer checks in on me. Because they [designers] have this sixth sense of when something like that comes down. And they'll show up at the door. 'Oh, you have new art, where did you get it, oh, its fabulous, de-da-de-da.' Then, all of a sudden,, the [X gallery] director here gets a phone call from the designer, 'Oh, isn't it wonderful, that worked out so nicely, now you owe me ten percent'." (Interview #91)

The dealer felt that the designer had no right to the commission, because the designer was not involved with the behavior directly leading to the purchase. The designers would argue that they steered the client towards that gallery in the first place, or gave their aesthetic approval to the gallery's work, which allowed the deal to happen. In such a circumstance, dealers may pay the requested commission to forestall the designer influencing the buyer to return the piece, or spreading rumors that the dealer does not cooperate with designers in general, which could hurt their business. Thus dealers are hoisted by designers on their own profit-sharing petards.

The economic responsibility for an art transaction -- the identity of the persons who made the deal happen -- has been made subject to interpretation, so that profits can be negotiated between interested actors. The designers' claim that they deserve a share of the deal because their design advice somehow legitimized the client's purchase from the gallery is analogous to the dealers' claims that they deserve a share of artists' studio sales because the gallery connection legitimized the value of the artist's work. In both cases the claim is put forth that it is the legitimization of value by a social relationship, and not merely the direct market search and choice leading to the sale, that deserves financial reward.

## Consumers or Connoisseurs? The Market for Lemons

The ability of art market middlemen to split deals comes from their claim to possess "taste" or knowledge about value which the consumer lacks. Connoisseurs -- dealers and expert collectors -- understand the market forces which determine price differences between works: the different history of museum shows, prizes, publications about the artist, and other separate factors studied by Frey and Pommerehne. Experts can estimate the effect of these factors on knowledgeable buyers' interest in the work and willingness to pay the price. But this information is not readily apparent to an average buyer in the local market.[15] There is a disparity in the information available to the dealer-seller and to the buyer of art which places the buyer at a disadvantage, and allows prices to be used as signals of quality. The more local the market, the less supporting information about comparable sales and prior bona fides like exhibitions, prizes and publications exist, and the stronger the purely social valuations become.

As is the case in other markets where the estimation of value in a particular transaction is difficult, yet the parties intend to maintain a long-term economic relationship, profits are shared or equilibrated (cf. Plattner 1985a). Wilson, for example, showed that prices are renegotiated between boat captains and fish packers after the deal is made, the boat unloaded and the fish sent to market.(1980) His explanation for this flexibility deals with the specific conditions of the market. The perishable product, significant transactions costs and unpredictable retail prices favors the establishment of long-term relations which facilitate steady supplies on a base of trust in the long-term fairness (or lack of a better alternative) of the ultimate price. The specifics of the two markets -- one for fine art, one for fresh fish -- could not be more different. Yet both situations involve commodities whose market value is hard to evaluate at the time of the sale, and trading partners who value an enduring market relationship over a short-run profit.

George Akerlof explained the importance of asymmetrical information in markets in a seminal paper in the economics literature (1970). Using the example of the used car market, Akerlof pointed out that sellers of used cars know if they are "lemons" or "cream-puffs", but buyers don't. Both cars may be equally polished and have similar mileage, but the seller knows that the engine or transmission is bad in one car and good in the other. Since this knowledge comes from using the car, the buyer can not know it, and if rational will only offer the value of a "lemon" for any car. Since the seller of a "cream-puff" knows the car is worth more than a "lemon", and is equally rational about money, the seller refuses such a low price. Thus the market fails in formal economic terms, since sellers and buyers meet but can not come to terms.

Akerlof discusses several solutions to this economic problem (see also Plattner 1985 Ch. 5 and 1989 Ch. 8). The solution followed in the art market is for collectors to establish personal relations with dealers as well as artists. But it takes time to personalize transactions. Since few people love art enough to spend the time either learning the information they need in order to make sensible purchasing decisions or developing a relationship of trust with a dealer, the total size of the market for contemporary fine art is smaller than might be expected by income distribution alone. This explains why art-buyers are a small sector of the elite and of the middle-class, all of whom might be expected to want to use art purchases to validate their relative status (cf. Halle 1993).

I've argued that artists with aspirations to art historical significance -- the "high end" of the art market -- do not make normal economic commodities. Art prices are not standardized across physical characteristics such as size and media. Since collectors learn to appreciate art in a social process, their own aesthetic reaction to the work tends to be influenced by esteemed sources of information such as other admired collectors, elite dealers, critics and curators (each with a personal interest -- aesthetic or economic -- to further). Prices for art not of "star" status can not function in the normal way, as manipulators of demand, since the consumer information needed to evaluate prices is hard to master. This creates the paradox of Veblen goods, that raising prices may stimulate demand among consumers hungry for the status that possession of high culture goods is supposed to give. The other side of the coin is that lowering a price does not raise demand as is the case for normal commodities, but instead lowers demand, as it signals an artist whose career is declining (Towse 1992).

Aspiring artists work hard for low incomes because making art is an essential part of their identity as artists. The post-modern condition of aesthetics -- the absence of a dominant theory of good-and-bad in art -- coupled with the price boom of the past 40 years, means that buyers see art as an investment good, yet lack a theory of value to guide them in specific choices. The information asymmetry between dealers and art buyers and the risk faced by buyers limits the size of the art market for local, non-investment art. The lack of an dominant popular theory of artistic value allows the nature of an art transaction to be mystified, so that interested parties can successfully demand a share of a deal they had no direct hand in. While at first sight the art market seems unique, on closer examination the paradoxes have similarities to other market situations where comparable constraints are found.

**Implications for Economic Anthropology**

This paper has sketched a market where people spend significant amounts of money to buy objects whose value they can not be sure of, and where people spend significant amounts of time to make commodities which few people are willing to buy. Anthropologists may think that these situations are unique to wealthy societies, and are not relevant to the people we usually study who live closer to the subsistence line and worry more about putting food on the table than art on the walls. But certainly the attitude that the quality of one's work is more important than the price received for it has had a long history in the field, since the earliest economic anthropologists explaining the logic in why natives did not produce for the colonial market. Identity producers in this article are similar to non-capitalist producers in dual economies. The consumer risk that this paper has described is also similar to the risk of engaging in economic transactions in developing economies, where legal and financial systems are not well developed. This transactional risk in some economies facilitates enclave sectors and ethnic trading specialization, where trading is embedded in enduring social relations which serve to facilitate trust. In both cases a driving force for the shape of the institution is the inequality of information available to buyer and seller, which heightens risk in transactions.

New research is needed for both producer and consumer sides. We need to study how individuals situate themselves along the dimension from identity to profit-oriented producer. Is possession of upper-middle class cultural capital a necessary (it clearly is not a sufficient) condition for a creative worker to become an identity producer? Careful ethnographic study of a sample of careers should help to suggest causes of artistic as well as commercial success where purely statistical analyses have had limited success (cf. Csikszentmihalyi, Getzels, & Kahn 1984).

Similarly we need more fine-grained study of the consumer risk involved in buying commodities where the cultural value may be great but the popular theory defining commercial value is not available. What are the actual processes whereby consumers spend many thousands of dollars for objects of whose value they are essentially ignorant? How do the social mechanisms used to authenticate value change in different contexts? Again, careful ethnographic studies of transactions should be useful in advancing our understanding of this mysterious yet relatively common act.

## Notes

Acknowledgments. This paper is based on a longer study published in Plattner 1996. Some of this material was presented at the 1995 Society for Economic Anthropology meeting in Santa Fe, NM. I am grateful for the critical comments of Phyllis Plattner and Frank Cancian on prior versions of this material.

1. Census figures show that New York's share of the nation's visual artists declined from 13% in 1970 to 7% in 1990. The combined share of the three largest markets, New York, Los Angeles and Chicago, declined from 25% in 1970 to 16% in 1990. (Source: NEA 1994).

2. This paper is not concerned with the history of this strange notion. Interested readers will find a good introduction to the question of how high art became divorced from ordinary market concerns in Woodmansee 1994; Becker (1982) gives a seminal view of high art as socially constituted; Bourdieu (1984) provides the classic statement of high art as the exclusionary cultural capital of the elite; and Bright and Bakewell (1995) offer a collection of current ethnographic essays on high and low art. See also Rheims 1980 for a delightful book of anecdotes about his life as an auctioneer dealing in heirlooms from the Paris elite; and Savage 1969 for a more analytical view of the same market in England.

3. The parallel is not exact because academic articles are necessary for tenured job security, while the typical artist works in an informal economy with no institutional rewards for exhibits of artwork

4. Guilbaut's (1983) wonderfully titled "How New York stole the idea of modern art" gives an analysis of the political implications and roles of the newly ascendant art world.

5. The popularity of high art was not unprecedented, and reminded some art world participants of the boom and bust of the 17th century Dutch markets, when paintings as well as tulip bulbs were sold by lottery and auction (cf. De Marchi 1995; Montias 1987). Likewise Zukin's claims of unprecedented recent status for artists are extravagant, as many artists enjoyed middle class status in many places and periods of history (e.g. Campbell 1976, Macleod 1996). Rivers and Zukin notwithstanding, art students still joke that no one's father ever sat them down and said, "Your mother and I would be most happy to see you consider a career as a sculptor".

6. The Master of Fine Arts (MFA) degree is the terminal professional degree for artists. This data is from Table 3-42 of the 1989 Sourcebook of Arts Statistics and Tables 3-2 and 3-4 of the 1992 Addendum to the 1989 Sourcebook, both published by the National Endowment for the Arts.

7. The estimate is based on averaging two years of data broken down by sub-field given in the NEA publication.

8. For comparison, in 1988-89, there were 30,293 Bachelor's degrees in English awarded; that same year 37,781 Bachelor's degrees were awarded in the visual and performing arts, of which 16,172 were in fine arts. In 1988-89 4,807 Master's and Doctor's degrees were awarded in English and 8,989 Master's and Doctor's degrees in visual and performing arts, of which 2,924 were in fine arts.

9. Until it was closed in 1994, a victim of the declining profits of the company.

10. While technically classified by art historians as a Postimpressionist, van Gogh's art is auctioned under the general Impressionist rubric. The precise attribution is not relevant to this analysis. "The name 'Impressionist' was in the great tradition of rebel names. Thrown at

them initially as a gibe to...insult them, it was adopted by the group in defiance...and made into a winning pennant" (White and White 1965:111). The changes in the market for art in the late nineteenth century that foreshadowed Impressionism are discussed in Green, 1987; comparable changes in England are discussed in Macleod, 1987.

11. According to the biography of the dealer Daniel-Henri Kahnweiler, by Assouline (1988).

12. This lesson did not apply to classical or "old-master" art, where the opinions of established experts are crucial.

13. See Adler 1985 and Rosen 1981 for an economic analysis of markets where insignificant differences in talent can bring huge differences in economic rewards because of the effects of shared consumption.

14. See also Schneider and Pommerehne 1983.

15. This is a problem in the elite New York market as well, but the closer one gets to blue-chip work with an extensive public record of auction sales, the more the information is available to buyers. Bourdieu (1984) and his followers believe that the limitation of the human capital necessary to appreciate fine art is part of the hegemonic processes elites use to limit access to their high status. Empirical studies like Halle (1993) do not support this simplistic generalization, since most elite persons are as ignorant about and disinterested in fine art as the masses.

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# Table 1: TYPES OF MARKETS

| **Consumers' Rules of Commodity Value** | **Producers' (sellers') Main Return from Production** | |
|---|---|---|
| | Monetary goals; Market Supply | Identity/ Psychic goals; Social Supply |
| Clear, Uncontested Rules, Adequate Information; Physical Attributes Dominant | Developed Market, Rich Infrastructure, Manufactured Commodities (Automobiles) | Professions, (Academics) Investment Art |
| Confused, Contested Rules, Inadequate Information; Social Attributes Dominant | Underdeveloped Market, Poor Infrastructure, Agrarian Societies (Used Cars, Perishables) | Local Art Markets |

Abstract

**A Most Ingenious Paradox: The Market for Contemporary Fine Art**

STUART PLATTNER

The economic behavior of artists, dealers and collectors in the local (not the high-end, elite New York hegemonic center) market for contemporary fine art is discussed. Seemingly bizarre behavior like artists giving dealers a share of a sale of an art object they have never handled to a buyer they have never seen is analyzed with reference to identity, economic rationality and consumer risk.