Value, Art and the Market: A Study in the Political Economy of Value and the Evolution of a Modern Art Market

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ABSTRACT

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Value is an ambiguous word. It is, at once, commonly used and understood, and yet one of the weightiest concepts in all of formal thought. Today, for many people, value and valuing have become synonymous with price and rare objects or even human attributes, which as a society we have endowed with an inherent sense of worthiness, seem to be reducible to a number. The purpose of this study is to investigate this connection between value and price through a case study approach which is both historical and constructive. More precisely, this study examines our underlying notions of value within the history of economic thought and aesthetics and their interplay in the evolution of a modern art market, in particular for painting. Within the context of contemporary economics, it suggests that art as a unique product of human genius, whose real (equilibrium) price is seemingly 'rudderless', may provide useful insights into broader questions regarding the basis of economic value. It argues that in order to gain a deeper understanding of value, art and the market, we need to look beyond the restrictiveness of economic models to the origins of our modern idea of art and to the art work's changing identity as a social-economic good. The underlying premise is that value is essentially socially constructed.

ACKNOWLEDGEMENTS

The origin of this study stems from a personal well of curiosity and doubt about the space the visual arts, in particular painting, occupy in contemporary life. Growing up in Otter Lake, Quebec in the 1970s there really wasn't very much opportunity to explore art. But from the day I first saw a photograph of van Gogh's *Starry Night*, I knew I'd found something special. Some twenty years later, my curiosity about art's special status was renewed. I had started to read the *Journal of Art* and the *Art Newspaper* on a regular basis and was impressed by the record setting prices earned by such works as van Gogh's *Dr. Gachet* ($82.5 million at Christie's New York, May 1990) and Renoir's *Au Moulin de la Galette* ($78.1 million at Sotheby's New York, May 1990). I became intrigued by the fact that these very high prices were not anomalies and by evidence that seemed to suggest some corporations were trying to use art as a financial asset. I became interested in the functioning of a market that, from an economic perspective, was supposedly as unique as its product. All of this made me ask a number of questions about value and art which, today, are the underpinnings of this work – is the connection between an underlying notion of value and price still important; can we learn something useful with respect to theories of economic value by looking at the valuation of art in the market; what is the historical relationship between price and our evaluations of notable artists and their works; what are the origins of our modern idea of art and the art work's identity as an economic good; and how has art become a lucrative investment asset? It is my hope that this work, in posing these questions, will in some way enhance our understanding of the broader social value of these art works in contemporary life – that is, as amazing products of human inventiveness and talent which are neither reducible to a numeric valuation nor overly romanticized as possessing some internality of purpose.

Anybody who engages in this kind of study understands the long hours and numerous highs and lows that go along with it. They also understand that, while writing is a quintessentially solitary act, this kind of project does not reach its end without the guidance and support of many people. My first debt of gratitude is to the late Stanley French who, as Director of the PhD Humanities Program, Concordia University (Montréal), offered his constant encouragement and interest in helping me to define my research project. Harold Chorney, as my PhD supervisor, has been a steady source of support and advice. His early enthusiasm for my project and patience through these many years are greatly appreciated. I would also like to thank Bill Buxton and Edmund Egan who provided guidance at key junctures of this process. Indeed, a very special thanks goes to Edmund Egan whose reading of this work saved me from a number of errors that would have otherwise gone unnoticed and whose love of the arts (the poetry of William Yeats) was a steady source of inspiration. I have also benefited greatly from my friendship with John de la Mothe, without whom this project would never have been started.

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All of these people have, in their various ways, contributed greatly to this work and made it better than it otherwise would have been. My sincere thanks to all!

JS

Winterholme
Ottawa, Canada

For Peter and Shirley

**Our deepest fears are like dragons
guarding our deepest treasures.**

Rainer Marie Rilke

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INTRODUCTION

VALUE, ART AND THE MARKET

> How should I know what is rice?
> How should I know who knows what it is?
> I've no idea what rice is.
> I only know its price.
>
> Bertolt Brecht[1]

This study is an attempt to investigate our underlying notions of value within the history of economic thought and aesthetics and their interplay in the creation and maturation of a modern art market, in particular the market for paintings. It attempts to examine the connection between value and price and suggests that art as a unique cultural product, whose real (equilibrium) or 'natural' price is seemingly 'rudderless', may provide useful insights into broader questions regarding the basis of economic value. This study examines various theories of value within economic thought and questions how their central ordering principles explain value and regulate price. It then examines the political economy of art as a case study of the economics of value. More precisely, it looks at the origins of our modern idea of art, of aesthetics and of the art work's changing identity as an economic good as a way of gaining a better understanding of the evolution of a market and the contingency of the social-historical roots of value.

Many economists, from Adam Smith, David Ricardo, W. Stanley Jevons, Alfred Marshall, John Maynard Keynes to those of the present day, consider the tangible art works

of renowned artists to be such unique products that they do not really conform to either the utility or labour-embodied theories of value or the long-run, 'natural' pricing mechanism. Fundamentally, it is assumed that the valuation of these types of art works depends on something other than standard cost-of-production (e.g., materials, labour, overhead, mark-up) considerations. Art, seemingly a commodity like no other, has acquired a status that has made it an exception to economic value theory and removed it from the 'normal' pricing process. Exceptions to general rules may, in certain instances, be perfectly dismissible, but by the same token, they almost always make interesting points of study. From this perspective, the art work and its market present a number of challenges to economic orthodoxy. They fundamentally question any claim to universality of economic value theory, their pricing confounds various analytical models (e.g., general equilibrium) and they seemingly present their own paradox of value – for art as an aesthetically unique product of human genius is, nonetheless, bought and sold in the marketplace as a durable commodity and an investment asset. That is, the art works of renowned artists are presented in one instance as intrinsically valuable objects and in the next as exchangeable commodities which are valued instrumentally within the market. This status as objects of intrinsic value is apparently both part of the reason why art is an exception to economic value theory and why their price performance is on a steady upward trend. Given these considerations, it is suggested that any investigation of art as a commodity must take on a broader point of view than that of standard neoclassical economic analysis. It must look at the changing idea of art itself as a bearer of meaning as well as the social-historical context of the art work's evolving marketplace. It must take a deeper look at the origins of value and the basis of price in order

to better appreciate why rare art works have become 'priceless' assets that seemingly stand in opposition to the accepted orthodoxy of mainstream economic theory.

The word 'value' is at once commonly used and understood, and yet it is one of the weightiest concepts, not just in economics and aesthetics but, in all of formal thought. As John Dewey pointed out more than once: "*Valuing* is a dangerously ambiguous word."[2] In everyday speech the 'value word' is used in different ways. When someone says that they value something it is generally accepted that this is an act of prizing, of holding dear, of exhibiting attachment, loyalty or affection or of indicating economic worth. The words 'value' and 'valuing' are almost always associated with an act of judgement, of stating a preference, of measuring with respect to some purpose, position or scale, of making an evaluation of some kind.[3] In its pragmatic and quotidian sense, 'value' is about making comparisons that relate to a wide range of human activities including the everyday usefulness of a thing and its equivalence in exchange. The original 'paradox of value' within economic thought had to do with differentiating these two ideas of utility – 'value in use' and 'value in exchange'. However, this complex word, 'value', may also be used to assert the essential, spiritual or intrinsic worth of a thing or attribute, which has little to nothing to do with comparison, utility or materiality. Indeed, within traditional aesthetics, the idea of beauty as the underlying notion of value is often set up in opposition to the notion of utility. More generally, this aesthetic value, which is typically associated with some sort of pleasurable or morally valuable perceptual experience and commonly endowed with an ontological meaning, is widely understood as distinctively non-instrumental and as elicited by certain purely or primarily formal properties of a natural phenomena or a work of fine art. As such,

art is supposed to possess an essentially inherent and fixed value that sets it apart from everyday use and the fluctuations of the market. Thus, the term 'value' can have contradictory meanings. And, more pointedly, in the case of the plastic arts and their market, these conceptual differences are commonly set in polarized opposition.

Despite this incongruence, tangible art works such as paintings, drawings and sculptures are still produced, distributed and exchanged within an economic system, and have been for hundreds of years. In the real world, when we attach a price to an art work, we are making an evaluation based on certain known facts and norms, preferences or tastes, as well as future expectations. Theories of economic value make certain assumptions about the nature of these evaluations in the marketplace. From the perspective of mainstream neoclassical economics, our market evaluations are peculiarly subjective, instrumental acts where what we value economically is determined by the perceived utility and disutility of purchasing or selling a given quantity of a commodity or asset at a given time. In this sense, value depends on our subjective desires. There is very little consideration given to the possibility of any social-cultural dimension to valuing within mainstream utility theory. In abstracting from the real world, the common-sense belief that what we value economically is predicated on social norms and interactions embedded in institutional structures and cultural biases that may be inter-generational tends to be glossed over as peripheral to our understanding of economic activity. This study takes the opposite point of view. Rather than being peripheral, the social-historical dimension of systems of production and distribution, and the changing economic identity of specific goods, are critical to our understanding of value and the underlying dynamics of markets. Moreover, for the purposes of this study, a

broader political-economic approach that looks beyond neoclassical orthodoxy to competing approaches, such as labour theory of value and an institutionally- oriented cost-of-production, is considered indispensable given the complexity of the underlying relationship between economic and aesthetic value within the marketplace.

Ideas themselves have distinct histories, germinating in the minds of men and women, and arising out of the social conditions of the distinct time and space that they attempt to reflect. Theory and concepts follow practice and contemplation of a current or pre-existing reality. They provide a way of reducing the chaos of a complex world so that we can better understand that world and act upon it. However, our ideas do not work in just one direction. Our ideas and views of the world interact with the social reality that surrounds us and are themselves a source of history and experience. It is always difficult to suggest when and how ideas originate and the manner, scope and depth of their influence. They are part of a shifting mental landscape that is entangled with the social materiality of time and space. They are part of the spirit of an age and their influence can extend into the future, often in unpredictable and unintended ways. As such, ideas are subject to interpretation, modification, reinterpretation, transformation and repudiation. They can be presented as part of a continuity of the evolution of human thinking and the incrementality of change in the social world, or as points of rupture and revelation associated with a speeding-up of change as perpetuated by an accumulation of social and technical innovations. That is, at certain points in human history when enough change in a variety of areas occurs, the appearance is created of a fissure or break with the past, making a new future possible. This study chooses to look for the points of rupture in our way of thinking about value, art and the market.

The relevance and history of key concepts within mainstream economics, which underlie its theoretical apparatus, are today almost taken for granted. Of particular interest here are the origin of our ideas of economic value and the place these ideas have come to occupy within contemporary economic thought. The mode of valuation appropriate to economic goods, specifically 'pure' commodities, is 'use value'.[4] 'Value in use', reformulated by the concept of utility, is positioned within neoclassical economics as the underlying ordering principle working behind the scenes to determine the surface phenomenon of relative price. Utility is defined as the satisfaction of wants within a model of supply and demand or, put more directly, it is "the characteristic of commodities which makes individuals want to buy them, and individuals buy commodities to enjoy utility in consuming them."[5] As a central doctrine of marginalism or neoclassical economics, utility theory supplanted the classical labour theory of value in the early 1870s.[6] As Joseph Schumpeter suggests, this change marked a thorough reconstruction of economics. Marginalism shifted emphasis from production to the exchange process and positioned the micro-allocation of resources versus the accumulation of capital as the central *modus operandi* of our economic system. From this world view, all goods are economic goods and are valued extrinsically and instrumentally. For an individual to merely use something in order to maximize her total utility is to subordinate it to her own ends without regard for whether the good is valued in some other way within another social sphere.[7] The 'pure' commodity is not valued of itself, but rather as a means to fulfill another purpose. From this way of seeing things, it would seem that any evaluation of art as a commodity, or as an investment asset, is diametrically opposed to the notion of aesthetic value.

Today, value and price as concepts are seemingly interchangeable. Very little consideration is given to the notion of economic value as something separate from the calculation of price within the marketplace. While value theory has, for the most part, been relegated to the history of economic thought, we need to remind ourselves that our ideas around value are actually fundamental to how we view economic life and our role as social-economic agents. As Robert Heilbroner argues:

> The questions raised by value are not antiquarian but perennial (and, I should add not elementary but elemental); and that varying approaches to value, far from being mere pedagogical devices for periodizing the history of economic thought – classical political economy with its "labour theory" of value, post-classical with its "utility theory" – powerfully influence the constitution of economic thought itself by identifying different elements within the social process as strategic for our understanding of it.[8]

This implies that our pre-analytic cognition of phenomena, or what Joseph Schumpeter calls our 'vision of things', guides our view of the world, as well as the problems we see and want to solve.[9] How we interpret value speaks to this vision. Within the history of economic thought, value theory is concerned with an abstract inquiry into the guiding principle that lies behind the economic processes of production, distribution and exchange. Value as an abstract concept is mediated in the real world through prices offered for economic goods. Price is the mechanism through which markets, particularly capitalist markets, provide a rational consistency to the diverse and otherwise uncoordinated activities of their agents. As Heilbroner describes it:

> Price links the world of action with that of order. Value "theory" is therefore indispensable for understanding how the capitalist system, largely guided by price stimuli, tends toward some kind of determinate outcome.[10]

Generally speaking, there are three main approaches to value within the history of modern economic thought and all of these are outlined, to a certain degree, in Adam Smith's seminal work, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776).[11] In some respects, the *Wealth of Nations* is to economics, what Immanuel Kant's *Critique of Judgement* (1790)[12] is to aesthetics. It is a well-spring of ideas, many pre-existing and some reformulated, which through its synthesis and method provided a provocative starting point for modern economics. In its time, the *Wealth of Nations* was an attempt to capture the spirit of an age by providing a framework for explaining the economic logic of an already complex capitalist market system. It codified the dynamics of a burgeoning industrial society and provided an interpretation of economic life based on a class structure composed of workers, capitalists and landlords, and propelled by the accumulation of capital and the growth of markets. Central to this economic vision was an exposition on the phenomenon of price which informs the allocation of resources, distribution of incomes and ultimately capital accumulation. In addition to setting straight the distinction between 'value in use' and 'value in exchange', the *Wealth of Nations* outlines three competing views of economic value and price: labour as the only true standard of value; a primitive notion of utility and the equilibrium of supply and demand; and an adding-up of costs approach to price.[13] These varying ideas, built on the shoulders of earlier thinkers, provided the foundation for the Ricardian embodied-labour theory of value, neoclassical utility theory and its model of general equilibrium, and various cost-of-production approaches used by David Ricardo, neoclassical thinkers (e.g., Alfred Marshall) as well as institutionally-oriented economists (e.g., Michal Kalecki's modified cost-of-production approach).

The centuries-old value debate within economics, which has been relatively sidelined, was principally between the Ricardian-Marxian and neoclassical schools of thought.[14] In large part, this debate was based on their competing visions and ordering principles, and stemmed from the claims of the proponents of marginal utility and general equilibrium analysis that their theory offered a superior explanation of the relationship between value and price, the actual pricing mechanism and the real-world working of the economy at large. While these two approaches clearly represented very different views of our capitalist system, one thing that they shared was their seeming inability to accommodate the economic valuation of unique art works within their distinct theoretical schema. As Ricardo, Jevons and Marshall would all conclude: "The value of such commodities are subject to no definite rule.... they are said to bear a fancy price."[15] But while these proponents of competing theories of value arrived at the same conclusion, their reasons were different. For Marshall and marginalism, the central problem was the unpredictability of demand for rare art works which made the equilibrium price "very much a matter of accident."[16] In contrast, for Ricardo and labour theory, the value of these works was unhinged from the original quantity of labour and the costs required to produce them in the first place. These scarce commodities were "monopolized" and had "no necessary connection with their natural value."[17] In short, for Marshall and neoclassical economists, the central problem was the indeterminacy of demand, whereas for Ricardo it was the fact of scarcity and the irreproducibility of these rare goods (i.e., supply-side considerations) that made them exceptions. As Michael White suggests, by looking at the economic valuation of art we are given a preview of the fundamentally different world views of these two streams of thought – one emphasizing demand, subjective

wants and the micro-machinations of the exchange process, and the other preoccupied with the social-economic processes of production and distribution within a capitalist system (i.e., supply-side considerations).[18]

When it comes to works of art, it must be emphasized that the standard cost-of-production approach to determining long-term, 'natural' price really does not seem to work either. That is, the market prices of art works cannot be said to be gravitating towards some long-term, real price as is the case with industrially produced goods. In summary, when it comes to art and its market, the various theories of value and price all seem to fail on a crucial point – the inability of their respective ordering principles to be seen as governing actual price. All of this presents us with a certain quandary – how do we conceptually and pragmatically explain the valuation of tangible art works such as paintings in the market? What can be taken from the various theories of value and other sources to help explain value and price formation? Do we simply accept that art is a special case and leave it at that?

Arguably, there is potentially an alternative way of examining economic value – that is, by suspending the perceived necessity for a standard ordering principle (i.e., a universal, unifying 'cause' of economic value) and looking to the social-economic roots of value and its expression as nominal price as part of a broader story about the changing definition, or economic identity, of a good or asset. In this way, the focus is shifted to a consideration of the social value of art and short-run price formation. This implies adopting more of a sociological and institutional economics approach to value and price. From this perspective, a social history of value and art in the marketplace needs to look at the changing idea of art itself. It must look at the changing definition of art, the evolution of its key market structures

and the processes of price formation and value creation particular to its marketplace. Fundamentally, this approach asks the question: how has art acquired its special status as a unique, cultural product of human genius? While this story may not start or end with eighteenth-century aesthetics, clearly its creation as a distinct field within philosophy played an important role.

As within mainstream economics, when we look at anthologies of aesthetics, what we tend to be presented with is a linear narrative, a dialogue and surface continuity of ideas (e.g., the 'beautiful', the 'sublime', the 'disinterestedness') stretching from Plato to Kant to the present.[19] What tends to be underplayed are the points of disjuncture, the social-historical context of ideas and the broader human purpose or mental obstacles these ideas were intended to explain or overcome. Aesthetics as an eighteenth-century creation of philosophy is such a point of reference for the way we think about art. In this vein, instead of Immanuel Kant's *Critique of Judgement* situated as a continuation of a centuries-old dialogue stretching back to antiquity, it can be seen as a bright starting point giving legitimacy to a new story of art. This new story entailed changing patterns of artistic production, distribution and consumption. These changes were stimulated in part by rising wealth and a growing bourgeoisie, and encompassed a new conception of art emerging as a matter of course and espoused by author and artist to accommodate their own instrumental interests. Although it would take centuries to work itself out, what was underway was a radical repositioning of the arts as purveyors of extrinsic beliefs serving broad human purposes to objects of disinterested reflection and internal purposiveness. In the case of painting, what was underway was a shift in the measure of the value of a work away from its usefulness as a

religious image, historical record or simple decoration, towards the intrinsic consideration of the perfection of the work itself as a manifestation of some higher order of meaning. In short, an instrumental conception of art (in particular, of painting as a mechanical art) is replaced by an aesthetic one (of painting as a liberal art serving its own purpose). While primarily concerned with the aesthetic experience and the mental attitude of judging something as beautiful (particularly, within nature), Kant's third *Critique* serves as a point of synthesis for this new way of thinking about art. Already a towering figure in German philosophy in his own day, Kant, in extending his transcendental analysis of the judgement of taste to art, legitimized art as a subject of philosophical discourse. Even though his aesthetics is not a theory of art *per se*, the very richness of the ideas (some borrowed and reinterpreted) explored in Kant's third *Critique* served as fount and foil for subsequent thinkers in the proliferation of aesthetic canons preoccupied with defining the essence of art in opposition to other human activities. In particular, Kant's conceptions of 'disinterestedness', 'the beautiful as a finality without external purpose' and of 'the artist as a creative-genius', are important connections forward to the Romantics (Novalis, Schiller, Schelgel, Schopenhauer) and Idealists (Scheller, Hegel), to the popular credo *l'art pour l'art* and, subsequently, to the avant-garde movements and art theories of the twentieth century.[20]

This is an interpretation of the social history of the idea of art that emphasizes the emergence of a capitalist market system as a key historical juncture for the art work becoming a distinct bearer of inherent meaning. As argued by Paul Oskar Kristella in his 1951 essay "The Modern System of the Arts" and, more recently, by Martha Woodmansee in her 1994 study on "rereading the history of aesthetics", the arts were the object of a

process of social re-evaluation and commodification.[21] In retrospect, what emerged was a morality of taste, which Woodmansee argues was perpetuated by the author-artist, that gave rise to a high culture as distinct from a popular culture. High or fine arts become valued in and of themselves, and as representative of a superior morality and social standing. The fine arts, through their aesthetic re-valuation as self-sufficient totalities, came to be considered quasi-sacred, autonomous entities and, consequently, valued within the marketplace as unique cultural products of human genius. This allowed for the development of an institutional basis for product differentiation between popular culture, crafts and the fine arts, and within the various arts among the output of different periods, schools and artists. The status of the author-artist changed from that of craftsman or artisan to 'artist-genius'. The artist gained an economic freedom to produce for a marketplace that increasingly emphasized specialization and differentiation, but that also underscored the uniqueness of his product, the art work. In short, philosophy legitimized a new idea of art which, while endowing art with a new sense of intrinsic value, also set the stage for tangible, one-of-a-kind works to become highly-prized unique commodities and investment assets.

In our modern world of advanced industrial capitalism there is hardly a corner of the globe or an aspect of contemporary life that has gone untouched by our pricing mechanism. Exchange value has become intertwined with other modes of valuation as the economic ethos deepens its penetration into other spheres of human activity from the pursuit of knowledge, to our spiritual and physical well-being, public service, charity, politics and nearly every mode of cultural and artistic expression. Increasingly, it seems that it is the price of a thing that is the ultimate arbiter of its worth. The apparent advantage is that market price makes

it possible to compare diverse goods, services and even attributes of human beings and nations by reducing them to a single common denominator of number. The threat is that, in reducing diverse things to numbers as a way of choosing and acting, we may lose sight of the worth such things possess outside of the economic realm. At one level, market price, as a rationing mechanism and signifier of a purely economic notion of utility, simplifies and rationalizes our choices as cost-benefit analysis. In other words, it reduces qualitative differences to a numeric value that all economic agents can judge. In this way, it helps to minimize complexities, speed-up decision-making and can greatly facilitate the flow, not only of goods and services but, of people and ideas. However, in doing so, this mechanism can also potentially obfuscate meaning associated with other ways of valuing. In the case of the work of art, the entanglement of the aesthetic with the economic may have the effect of diminishing our appreciation of the content of the work itself, as the standard by which we assess what is, or is not, an outstanding masterpiece becomes the latest sales price. The economic standard is pervasive to our way of seeing the world – meaning that it is much easier to access and use than any aesthetic canon or art historical knowledge. In short, it tends to simplify our justifications for the choices we make by doing away with the need for a deeper appreciation of any ethical, social or cultural-historical bases or obligations.

Today, it is not necessarily the artistic merit of an Old Master or Modern painting which comes to establish its importance in the minds of people, but rather its authenticity as a product of a revered artist as legitimized by its latest sales price. For example, when the painting *Portrait of Mademoiselle Chalotte du Val d'Ognes* was ascribed to the French neoclassical artist Jacques-Louis David (1745-1825) it was revered for its colour, unified

attitude and unforgettable content. However, when it was re-ascribed to Constance Marie Charpentier (1767-1841) weaknesses were discovered in its design and it was demoted as an "ensemble made up from a thousand subtle attitudes."[22] When, in 1999, the attribution of the painting *Samson destroying the temple* as a Rubens (1577-1640) was called into question by several European art experts it was reported that the economic worth of the painting would drop dramatically to about $32,000 - $88,000 from the $7 million the J. Paul Getty Museum is estimated to have paid for it (note that all figures are in US dollars unless otherwise indicated).[23] The artistic qualities that had made these paintings praise-worthy and unique had not changed, but with a change in attribution their aesthetic value and, concomitantly, price were diminished. In a similar vein, after the National Gallery in London was offered £2.5 million for the Leonardo Da Vinci (1452-1519) cartoon *The Virgin and Child with St. Anne and St. John the Baptist* in the early 1970s, it became one of the most popular pictures in the collection and a source of revenue through the sale of reproductions. As John Berger in *Ways of Seeing* (1972) remarks on the Da Vinci drawing and its valuation:

> Now it hangs in a room by itself. The room is like a chapel. The drawing is behind bullet-proof perspex. It has acquired a new kind of impressiveness. Not because of what it shows – not because of the meaning of its image. It has become impressive, mysterious, because of its market value.[24]

Within the market for paintings, in particular the market for the art works of notable artists (living and deceased), aesthetic value and price have become inextricably intertwined and it seems that, at least in certain instances, the former is subsumed by, or subordinate to, the latter.

With the spread of a capitalist market system, and under the influence first of the Renaissance and then Romanticism, the underlying function of art shifted from a 'cult' or

'religious use value' to our modern idea which holds that artistic activities need no moral or social justification but should be judged by their own standards as possessing an intrinsic value. This way of thinking about art, coined as *l'art pour l'art* by such French writers as Victor Cousin, Théophile Gautier, Gustave Flaubert and Charles Baudelaire, and popularized in the English world by such cultural luminaries as Walter Pater and Oscar Wilde, became the credo of Modernism which arguably continues to hold sway to this day.[25] The definition of art as an identifiable and distinct sphere of activity (or set of activities that traditionally included poetry, music, painting, sculpture, architecture and sometimes dance) became rooted within an aesthetic theory that claimed that the work of art has an essence that is capable of transcending time and place. Combined within a philosophical discourse on aesthetics, the idea that art works were self-fulfilling totalities and the positioning of the artist as the ultimate 'creative-genius' helped to legitimize the romanticization of the arts as quasi-sacred forms of expression. Concomitantly, within this narrative framework, the market provided a means by which the arts were liberated from their old religious 'use value' and dependence on church civic and personal patronage. By the late eighteen hundreds, the system of art production and distribution based on patronage, masters' workshops and art academies, was clearly broken and artistic activity was already well integrated into a modernizing market economy. More specifically, as a capitalist market system deepened and became more pervasive, and as aesthetics as a new field within philosophy provided a new powerful justification for the special status of art, artists and their dealers were provided a means for securing their autonomy as entrepreneurial economic agents and creators of value. In attempting to read the social history of art as an idea and a practice, it is difficult to

disentangle these reinforcing and sometimes seemingly contradictory influences. That is, art in our modern age takes on a paradoxical character – as an object which possesses an undefinable intrinsic value, but which is nonetheless exchangeable and used for extrinsic means.

Just as the traditional, common-sense notion of 'value in use' gave way to the concepts of exchange value and utility within political-economic thought some two hundred years ago, it has become increasingly apparent that aesthetic and economic value are, today, inextricably intertwined as the visual work of art has gained status as a unique cultural commodity, as a real asset, as marketing image and as a potential, speculative asset. As the visual art work has become integrated into a global market economy and financial system, its social-cultural appreciation as an autonomous expression, which has the potential to offer a deeper meaning with respect to the purpose of human existence, may have become more difficult to communicate and defend. Indeed, the view that art has an essence that somehow separates the art work from external purpose likely does not hold the same sway within contemporary art philosophy circles as it once did (i.e., starting with Marcel Duchamp and Dadaism, and, in particular, gaining in momentum with the anti-essentialism of the 1950s (e.g., Morris Weitz) through to the experience of Pop Art and the end of high Modernism).[26] Nonetheless, this belief seems to have retained a certain degree of acceptance within the broader art world and consuming public. And, it is arguable that today's art world continues to perpetuate this faith in the intrinsic value of art, not just as part of its shared belief system but, as part of the business of art itself.

The arts continue to present a magnificent expression of what it means to be human and are a potential source of tremendous pleasure and shared understanding. Yet, at the beginning of the twenty-first century they are also part of a vast and diverse entertainment enterprise or 'culture industry'.[27] As part of this broad enterprise, the art world confers value through established social practices, the interrelations of its organizations, practitioners, intermediaries, consumers and investors, and ideally through a shared knowledge of the history and theory of art.[28] In the broadest sense, this art world consists of sets of communities composed of institutions, corporations, associations and individuals. At its foundation is the eighteenth-century conception of art as the 'fine arts' which most commonly encompasses painting, sculpture, architecture, poetry, music and dance, as well as twentieth-century additions such as photography, collage, earth art and multimedia productions. That is, art is identified as a sphere of activity (or set of activities) that is distinct from, and often defined in opposition to, the crafts, the sciences and other areas of human endeavour. Within Marxist analysis and critical theory, it is often positioned as the beautiful or provocative twin of a vulgar, conformist mass culture and considered by many who care about it as something that, although it stands apart from the everyday, is relevant to our everyday lives through its capacity to manifest a higher meaning about human existence.

In the market for visual art works, such as paintings, business transactions tend to be veiled from close external scrutiny by the discrete practices of its community and by the idea of art itself. In addition to the artists, the main components of this market are the art dealers, galleries, auction houses and investment services which act as intermediaries to help shape demand and bring supply within reach of collector-investors and speculators. Art critics,

historians, curators at leading museums and juries at major art fairs, all play important roles in extending the market, creating value and shaping demand by helping to establish the authenticity of the works of living and deceased artists. In this world, the visual art work – painting, drawing, sculpture, collage, multimedia work, photograph – can become valued not just for what it is trying to say or present, but rather for its novelty, its authorship, its historical significance, its providence, as well as the latest sales price and expected return. As cultural commodity, real asset, advertising image or potential speculative asset, these art works may become governed by their realization as exchange value and not by their own specific content.[29] To paraphrase, once again, John Berger in *Ways of Seeing*, the art work is defined as an object whose value depends on its scarcity and this value is gauged by the price it garners on the market.[30] It is not a 'pure' aesthetic value (i.e., the disinterested appreciation of artistic merit based on its pleasurable effects and shared perceptions of quality, be this an assessment of the perfection of the beautiful that was key to the principle of *mimesis* or the formalism and arrangement of lines and colours which is germane to a more modernist sensibility) that is evaluated, but the art work's 'degree of uniqueness' (i.e., its author, historical significance, providence) within the marketplace and its use as a store of monetary value, as well as the possibility of a certain financial gain sometime in the future. More specifically, as an expectation of a certain financial gain, the art work becomes part of the world of transactional capitalism.

In order to maintain monetary values, the art business must foster the kind of art that collector-investors and speculators want and, as much as possible, promote the 'pricelessness' of its product as a real asset. To a certain extent, the art business embraces

the romanticism of *l'art pour l'art*, while practising the ethic of the market. It perpetuates a belief in the quasi-sacredness of art not exclusively for the sake of art, but for the sake of the market as part of a social expression of pecuniary reputability and the drive for 'wealth-as-capital'. Such a system questions the intrinsic value traditionally ascribed to art by philosophical Romanticism and Modernism. But more than this, it highlights the complex nature of value itself based as it is on centuries-old notions, both within aesthetics and economics, that we tend to take as given.

The task of this study is both historical and constructive. The purpose is to explore the social-historical foundations of economic and aesthetic value as part of the evolution of our capitalist system and the *élan* of modernity. It is to examine how varying conceptions of value, although having their own distinct history and serving their own purpose as part of their respective specialized field of knowing, are nonetheless related as different aspects of social valuing. As value and valuing are socially mediated, this discourse necessarily involves a multi-disciplinary approach that investigates the expression of these conceptions of value both in theory and in practice. It is an underlying premise of this study, that our theories and notions of 'value and price', of 'how economies and markets work' and of 'why we value art', arise out of an interaction of social facts and norms as well as the capacities of our minds to interpret, reinterpret and impose a vision or order upon external reality and inner experience. In this sense, in order to explore the interrelation of economic and aesthetic value it is important to look at the historical development and use of these conceptions, and it is critical to look at how they play themselves out in the real world.

Part one of this study deals with the economics of value, drawing on the Schumpeterian approach to reading the history of economic thought. In this vein, chapter two outlines Schumpeter's expository devices (i.e., 'vision' and 'classical situation') for deciphering economic history and then discusses economic value as a function of the ethic of the market and as part of our capitalist social system. Chapter three traces the value debate within economics with an emphasis on how different interpretations of value are attached to different visions of prevailing social-material conditions. In particular, it looks at the historical roots of classical labour theory, utility theory and the cost-of-production approach to price, by examining the contributions of several prominent figures to economic thought including Adam Smith, David Ricardo, Alfred Marshall, Michal Kalecki and John Maynard Keynes. It argues that by asserting that value and price are synonymous, contemporary economics stymies any meaningful discussion of its own foundations. It argues that there is a rich social fabric of value that has to do with the identity of commodities, consumer and investor preferences and expectations, and the changing structures of production and distribution, as well as marketing practices and financial mechanisms. Marginal utility remains a useful concept but it is not the panacea neoclassical economics makes it out to be, and indeed, contemporary economics may have a lot to gain in terms of qualitative analysis from opening itself up to alternative viewpoints. In short, there is more to understanding value than is alluded to by various economic theories and pricing models. Although we may have lost sight of it, value is price but only in a narrow algebraic sense. Yet, the fear remains, that it has become all too easy to rely on price as the primary measure of social valuing.

Part two of this study explores the social-historical roots of our modern idea of art. It suggests that the separation of a basis of artistic merit from any notion of practical usage is the foundation of our modern idea of art as a unique expression of human genius which, in today's art world, represents the underlying basis of a tangible art work's economic worth. More explicitly, chapter four provides a reading of our evolving notion of art, with a focus on its visual forms, from two perspectives. The first takes a more social-material viewpoint by describing broad cultural-social changes and by looking narrowly at key innovations in the art of painting. The second and larger part of the chapter focuses on the development of key philosophical concepts which have influenced our way of thinking about art for much of the twentieth century. Emphasis is placed on the role philosophy played in transforming an instrumental conception of art into an aesthetic conception wherein the arts are formally re-evaluated as self-sufficient totalities and as independent from practical means. In particular, the chapter focuses on the influence of two key figures, Immanuel Kant and Georg W.F. Hegel, as providing the philosophical basis for an underlying re-conception of art and the artist in modern life. Through this philosophical discourse, art is given a new legitimacy as an unique expression of being. It is separated from any notion of utility and valued intrinsically. The artist's status as 'creative-genius' is solidified and the individual art work becomes a particular manifestation of a higher order of meaning. In this way, the uniqueness of the art work is heightened, first by endowing it with an intrinsic value and, secondly in the case of the plastic arts, by accentuating the particularity of the work as a tangible 'one-of-a-kind' expression. The scarcity of the art work is accentuated and its price begins to be ruled by its 'degree of uniqueness'. It is argued here that it is this re-conception of art, as an

aesthetically unique product of human genius and bearer of meaning, which forms the social-cultural basis of the visual art work's commercial re-evaluation from a durable commodity to an investment asset, marketing tool and potential speculative asset. In short, philosophical aesthetics and the subsequent popularization of the credo of *l'art pour l'art* are, historically, key sources of value underlying market price and investment return.

Part three of the study provides a more empirical examination of the social-economic history of the art of painting and the identity of the art work as an economic good within an evolving capitalist system. More specifically, chapter five discusses the social-historical roots of our modern art market and the changing nature of art as a possession and a commodity. There is a growing body of research on the history of the art market and it is drawn on here in an attempt to trace the changing relationship between the ascribed artistic merit of a painting, changing tastes and market price. As early as the seventeenth century there is evidence that authorship (whether a painting was produced by a master's hand versus an apprentice, by an innovator versus an imitator) is positively associated with a higher relative price. But, arguably, it is not until the twentieth century that the price differential between the work of an acknowledged master and a lesser painter dramatically widens (roughly a ratio 3:1 in Rubens time whereas now, depending on the artist, it is in the order of 100s:1). This is taken as evidence, although not proof, of the changing aesthetic valuation of art works and the gradual economic re-definition of high quality works of genius from durable commodities to potential investment assets. Clearly other factors such as rising wealth and changing tastes have played important roles, but they alone do not offer a sufficient explanation of the dramatic rise in prices. More pointedly, taken on their own, they do not provide a sufficient

interpretation of the initial basis of today's price structures and investment evaluations.

Finally, chapter six extrapolates on the economics of art or, more explicitly, how the discipline of economics explains the present-day art market, the pricing of 'priceless' art works and the acceptance of the notion of art as investment. Corresponding with the dramatic growth of global capitalism, the art market of the twenty-first century is characterized by a hierarchy of sub-markets, cycles of boom and retrenchment, and bouts of speculative investment. Art prices are seen to be on a long-term upward trend coinciding with rising wealth and a general perception that 'good' art is a lucrative investment. The purpose here is not to judge whether art is a 'good' investment compared to other financial assets, as most economic studies on the subject do, but to explore the extent to which art is treated as investment. It is argued that at least in the high end of the market, the economic value of an art work is appropriately assessed as an investment. That is, the 'economic identity' of the work of a notable artist is primarily that of an investment asset and no longer simply a durable commodity. The fundamental argument that runs throughout this final chapter is that, while we cannot necessarily apply any long-run price analysis in the case of art and its market, we can appraise actual market price as a function of scarcity and, as David Ricardo put it, as the "proportion of supply to demand, or demand to supply."[31] In short, we can enhance our understanding of value by taking a deeper look at the changing social-economic identity of goods and assets, and we can relate value to price through an examination of market structures and conventions, as well as the study of short-run price formation and a tentative extrapolation of long-term trends. In the case of art, this means looking at how the art world ascribes aesthetic evaluations based primarily on supply-side considerations and

how various market players (i.e., dealers, auction houses, art experts, financial services providers) interact to create market value and establish a foundation for actual prices (i.e., by setting high and low price estimates). It also means acknowledging that the economic value we ultimately ascribe to tangible works is based on our changing idea of art as a bearer of meaning – a meaning which is itself socially created, inter-generationally transmitted and, thereby, subject to the uncertainty of change over the long-run.

CHAPTER 2

OUR VISION OF THINGS

> The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one way "value in use"; the other "value in exchange". The things which have the greatest value in use have frequently little or no value in exchange. Nothing is more useful than water: but it will purchase scarce any thing; scarce any thing can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it.
>
> Adam Smith[1]

Adam Smith's well-known water-diamond illustration[2] and the brief passages that immediately follow it in Book One of the *Wealth of Nations* set the parameters for the nineteenth-century debate on economic value. This debate encompassed a search for "the real measure of this exchangeable value," the component parts of real price, and its appearance as market price or the "actual price of commodities."[3] The real or 'natural' price is characterized as a single price for each commodity that encompasses a uniformed rate of profit on the capital invested in the product and is the result of the persistent forces of the economy. In contrast, the market (actual or nominal) price that rules at any point in time can be influenced by transitory phenomena and, consequently, is seen as potentially deviating from its real value. As a thinker of the Scottish Enlightenment, Smith's objective was to answer a set of questions on value, price and capital that would together explain the workings

of early industrial capitalism by cutting through the chaos of transitory phenomena and by focussing on what he considered the more permanent economic forces governing human progress. Value theory was to explain the underlying rules of commercial life or, more succinctly, the principles regulating production, distribution and exchange which are fundamental to a capitalist market system.

The water-diamond illustration was a useful device. By employing it Adam Smith pointed to the very heart of the matter for the reader of his day by drawing attention to the apparent incongruity of the commonplace usefulness of a good compared to what it may, or may not, garner in the marketplace. In so doing, he called into doubt the traditional concept of 'value in use' and raised a fundamental problem: if the price of a good is not based on a common-sense notion of usefulness 'then what is it governed by?' In one fell swoop Smith dismissed any remaining remnant of a notion of 'just price' and placed the foundation of value directly within the workings of an evolving capitalist market system. Over the next one hundred years, the pursuit of a definitive value theory, that provided a sense of order to the flux of activity in the phenomenal world of markets, became a search for first principles informed by changing material and social conditions as well as the moral philosophy of natural law, utilitarianism and the principle of subjectivity. 'Then what' became the subject of much theorizing, and for good reason given the importance of 'value in exchange' as an ordering mechanism for markets, the formation of incomes and, in turn, capital accumulation.

The water-diamond illustration presented an apparent paradox in that it encompasses two different definitions of utility. The first 'value in use' is based on the properties of a

good and its capacity in fulfilling some commonplace function. A good is valued for some inherent property as it is this property that provides a means for achieving some particular human purpose. But this inherent usefulness is not a sufficient cause of price. As Adam Smith asserted: "Nothing is more useful than water: but it will purchase scarce any thing; scarce any thing can be had in exchange for it."[4] Only at the close of the twentieth century has this assertion began to waiver as the prospects of shortages of fresh water become more of a probability for advanced capitalist countries, including parts of the United States. That is, as the availability of fresh water becomes less accessible its shifts from being considered a 'free' good to one governed by its scarcity in the marketplace.

'Value in exchange' is a hybrid conception of use value that comes into usage with the spread of the market mechanism and the rise of capitalism. Already entrenched in Adam Smith's time, this alternative notion of value is based on the desirability of a particular quantity of a good for individuals versus the inherent properties of the good. The scale of measure is no longer a common-sense notion of usefulness intuited through the collective accumulation of life experience. Instead, the measure of value of a given commodity becomes the quantity of another commodity that it is exchanged for in the marketplace. As Smith put it: "A diamond ... has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it."[5]

The *modus operandi* of capitalist market exchange is to make diverse objects, human endeavours and qualities comparable by reducing them to a single common denominator of number irrespective of their seemingly irreducible differences. The relative value of a commodity becomes measured by its price and governed by the functioning of the market.

In treating unlike things as comparable, the inherent properties of things are displaced for the sake of an alternative, extrinsic purpose. In this sense, value is seen as emanating from the choices people make in the marketplace and what they are willing to give up in exchange for a particular quantity of a particular good or service. The only thing that matters is the market valuation. And, the threat is that other structures of social value may become subsumed by it. The relative scarcity, or 'degree of uniqueness', of a commodity may give it an aura of 'pricelessness', but it is nonetheless translated into a price tag. Thus, a modernist masterpiece such as Van Gogh's *Dr. Gachet* can sell for a record-setting $82.5 million at the height of a boom market in the spring of 1990; or the basketball legend Michael Jordan can earn an income in salary and endorsements of $78 million in a single year (1996) – thereby, setting a watershed for other 'priceless' masterpieces and sports superstars.[6] The salaries and benefits of many of today's chief executive officers seem to have followed a similarly dramatic upward price trend. Under the market ethos, the value associated with all sorts of human outputs and attributes become equated with market price, and fair market price becomes whatever the market will offer. It has become a truism within some quarters that we all push our price as high as we can make it go. And yet, from outside of the economic realm, these astronomical prices and earnings do seem absurd. They seem unhinged from a deeper sense of human worth and social purpose.

Through the lens of mainstream economics, we are inclined to believe that what we value becomes what we have chosen, and there are no grounds for what we choose except the grounds we give ourselves as market participants. From this perspective, value becomes utilitarian and highly subjective. As the critical theorists Max Horkheimer and

Theodor Adorno put it over fifty years ago in their work *Dialectic of Enlightenment*, in capitalist markets the tendency is that:

> Everything is looked at from only one aspect; that it can be used for something else, however vague the notion of this use may be. No object has inherent value; it is valuable only to the extent that it can be exchanged.[7]

Price and the ability to pay become the primary arbiter. In mainstream neoclassical economics, any deeper understanding of the difference between value and price tends to be glossed over. Value is rendered as a consideration of the long-run machinations of prices as based on the concept of marginal utility and a model of general equilibrium. In the end, any notion of inherent value is, for the most part, reduced to price.

Reading the History of Economics

In Adam Smith's seminal treatise we are presented with an account of the various notions of value and price, as well as a theory of capital, saving and investment, that have shaped economic thought throughout the nineteenth century and that reverberate throughout economics to this day.[8] However, it is important to point out that Adam Smith was not necessarily the originator of these various ideas. To understand their origins we need to explore the writings of the scholastics, natural law philosophers (including utilitarians) and the physiocrats; as well as the store of economic knowledge developed by merchants and civil servants as arising from their practical needs and problems. As Joseph Schumpeter, Ronald Meek and others have described, there is a rich literature on economic sociology going back to the early scholastics of the Roman Catholic Church (e.g., St. Thomas Aquinas, John Duns Scotus, Luis de Molina) and the Physiocrats of the eighteenth century (e.g.,

François Quesnay, Richard Cantillon, Anne Robert Jacques Turgot).[9] For example, a lesser-known figure, Ferdinando Galiani, in his work *Della Moneta* (1751), provided an explanations of the paradox of value that equated value with a conception of utility and scarcity over a decade before the appearance of Smith's *Wealth of Nations*. For Joseph Schumpeter, if nineteenth-century economists had only first read Galiani, this "would have rendered superfluous" all of their "squabbles – and misunderstandings – on the subject of value."[10] Interestingly, Galiani also suggested that labour was the only standard of value. Thus, he foreshadowed not only utility theory but also the labour theories of David Ricardo and Karl Marx.

On this account, it is hard not to agree with Alfred Marshall when he remarked that Adam Smith's "chief work was to combine and develop the speculations of his French and English contemporaries and predecessors as to value."[11] Or, as Joseph Schumpeter made the same point, but much more bluntly: "The fact is that the *Wealth of Nations* does not contain a single analytic idea, principle, or method that was entirely new in 1776."[12] This is not to downplay the significance of Smith's accomplishment which lay in the work as a whole; its scope and execution in interpreting the workings and spirit of the capitalist system of his time; its conveyance of ideas in a simple and common-sense fashion that appealed to both an educated reader as well as a new reading public; and, its promotion of policies that were in line with the sentiments of the time (e.g., free trade and *laissez-faire*). To put it in simple terms, the *Wealth of Nations* is a summation that draws our attention to the discernible machinations of a capitalist economy and its market mechanism at the adolescence of our modern age. It consolidates key ideas, analytical tools and detailed descriptions that taken

together provided a persuasive interpretation of the capitalist economic system of its own time and place.

Adam Smith's work represents what Schumpeter calls a 'classical situation' defined as "the achievement of substantial agreement after a long struggle and controversy – the consolidation of the fresh and original work which went before."[13] Schumpeter proceeds to explain that:

> The classical situation of the second half of the eighteenth century was the result of a merger of two types of work that are sufficiently distinct to justify separate considerations. There was the stock of factual knowledge and the conceptual apparatus that had slowly grown, during the centuries, in the studies of philosophers. And, semi-independent of this, there was a stock of facts and concepts that had been accumulated by men of practical affairs in the course of their discussions of current political issues.[14]

For Schumpeter, the designation of a 'classical situation' is an expository device that, while based upon facts, should not be "taken too seriously or else what is intended to be a help for the reader turns into a source of misconceptions."[15] That is, it is useful in providing us with a way of characterizing significant innovations and shifts in economics and their subsequent consolidation into the mainstream as a new point of consensus. It allows us to acknowledge the major contribution of an Adam Smith, while at the same time opens up our understanding of the origin of ideas and our interpretation of them within a social-historical context.

This expository device, when combined with Schumpeter's notion of 'vision', provides us with an insightful way of reading the history of economic analysis – one which allows for the influence of changing material conditions and systems of ideas. These devices allow for the consideration of economic knowledge as socially constructed. 'Vision' is defined as a "preanalytic cognitive act" that "supplies the raw material" for our analytical effort. It encompasses the perception of 'a set of distinct social phenomena that have caught

our interest', and that is then 'conceptualized in such a way that specific elements take shape, with names attached to them that facilitate recognition and manipulation, in a more or less orderly schema.'[16] Schumpeter proceeds to clarify that:

> Analytic work begins with material provided by our vision of things, and this vision is ideological almost by definition. It embodies the picture of things as we see them ... [and] the way in which we see things can hardly be distinguished from the way in which we wish to see them.[17]

Ideologies are superstructures based on the ideas, or systems of ideas, that prevail at any given time in any given social group. They are erected upon the realities of the social structure but they may reflect these realities in a biased manner. Schumpeter further points out that statements of fact within an ideology are not necessarily erroneous: "For ideologies are not simply lies; they are truthful statements about what a man thinks he sees."[18] For Schumpeter, the methods and tools of economic analysis can vitiate the ideological elements embedded in our vision of capitalism. However, a clear separation of vision and analytics is surely an ideal-typical interpretation. While analytic methods and tools are indispensable for verifying or falsifying economic propositions about the workings of the capitalist system, they may be far too intertwined with the content of their subject to completely reduce the ideological influence or purpose.[19] As Robert Heilbroner and William Milberg, in their 1995 work, *The Crisis of Vision in Economic Thought*, make the point:

> The vision underpinning each classical situation serves to reflect or affirm the hopes, or to allay the fears, of the larger community ... a focus on vision, within the context of the formation of classical situations, leads almost inevitably to an evaluation of the criteria by which particular theories rise to fill the purpose.[20]

It follows that the dynamics of the rise and fall of 'classical situations' are of two kinds: internal problems of analytics and dissonance arising from the prevailing vision; and, the changing material and social conditions of a particular time and place.[21]

In addition to the Smithian summation, Schumpeter makes a case for two other 'classical situations'. The second one is set out in John Stuart Mill's *Principles of Political Economy* (1848). Referred to as 'Mill's half way house', this work attempts a consolidation of the political economy of the classical economists, in particular David Ricardo's labour theory of value and the often opposing ideas of such men as T.R. Malthus, J.B. Say, Samuel Bailey, Mountifort Longfield and Nassau Senior. The other 'classical situation' consists of the marginalist revolution of the late eighteen hundreds as contained in the works of William Stanley Jevons, Carl Menger and Léon Walras, and, perhaps, best summed-up in Alfred Marshall's *Principles of Economics* (1890).[22] In the twentieth century, we could add the post-Second World War Keynesian consensus as a fourth 'classical situation'. This point of consensus is well presented, not in the work of John Maynard Keynes, but in Paul Samuelson's popular textbook, *Economics* (1948)[23] which provided a rapprochement between the marginalists and some of Keynes' ideas. Following the demise of Keynesianism in the 1970s it is difficult to discern whether a new 'classical situation' has emerged within economics. Although, as Robert Heilbroner and William Milberg argue, there are several pretenders including monetarism, rational expectations, new classicals and neo-Keynesianism.[24]

For the purposes of this study's discussion of economic value, attention is focussed on the nineteenth-century labour theory of value, the rise of the marginalist approach and the Keynesian revolution. The approach is to use Schumpeter's expository device of the 'classical situation' as a way of examining different theories of value and conceptual innovations, and how these are then either consolidated into, or discarded by, mainstream

economics. An objective is to show that our vision of things, combined with analytical difficulties and changing social-material conditions, inform the rise and fall of these 'classical situations', as well as the surfacing and obscuration of different approaches to economic problems. The aim is to provide a critical discussion of economic concepts of value within Schumpeter's framework in order to reveal some of the strengths and weaknesses of economic theory in explaining the dynamics of contemporary capitalism, in particular the workings of the market mechanism and price formation. Given this starting point, what can be said about our understanding of capitalism and how it may affect our approach to value and valuing?

Capitalism as a Social System

As Karl Marx observed, within industrial capitalism "what matters is not the immediate use-value, but the exchange value and, in particular, the expansion of surplus value."[25] That is, capitalism is geared towards the production of tangible and intangible commodities for exchange, and the objective of this investment is the expansion of exchange value, or more succinctly capital gains. To put it more simply, as Keynes did in *General Theory* (1936): investment is undertaken for future profit – not for future consumption.[26] The central *raison d'être* of a capitalist social order is the accumulation of capital.

To say that there is a code of behaviour to modern markets and that this is embedded in the social order of capitalism should be stating the obvious. But, as Robert Heilbroner and William Milberg argue, in a field of inquiry that has deliberately identified itself with 'pure' science, it is important not to understate what is, certainly within mainstream neoclassical

economics, a source of unease.[27] This is the view adopted by this study: that markets are more than resource-allocation mechanisms; that they are social-historical constructs; and, that capitalism as a global system shapes the dynamics of social life and perpetuates the infiltration of the market ethos into other spheres of activity in order to generate profit and sustain growth.

The commercialization of all sorts of cultural expressions and pursuits is a case in point. In the visual arts the shift from a patronage-based system of production, perpetuated through personal relations and a reliance on barter, to producing directly for the market and an anonymous consumer took centuries to work itself out. This transformation of the nature of production and distribution was accompanied by a redefinition of the cultural pursuit itself – from that of an artisan serving a primarily religious, didactic or ethical purpose, to that of an 'artist-genius' capable of creating a quasi-sacred work of art which, in turn, was viewed as manifesting some sort of higher meaning about human existence, as symbolizing social status and wealth, and, ultimately, used as 'wealth-as-capital'. While forces of change are difficult to disentangle, it is relatively undisputed that by the late eighteenth century a modern cultural enterprise was emerging in leading Western centres. The rapid growth of a reading public and the development of a book market, the commercialization of a music culture and the growth of a modern art market, all evolved on a principle of product differentiation and a growing divide between a high and a low (or popular) culture. As prosperity increased in the main trading centres, and gradually in once peripheral ones, the markets for the fine arts and other popular forms of culture grew with different types and qualities of products fitting into different price ranges and serving different consumer niches.

In the second half of the twentieth century, we have witnessed a veritable explosion in the commercialisation of cultural expressions and pursuits. For example, Brandon Taylor has contrasted the art production of some 2,000 visual artists who practised in and around Paris in the mid-nineteenth century (producing 200,000 art works) to that of New York in the mid-1980s where there were some 150,000 artists, exhibiting in 680 galleries and producing more than 15 million art works in a decade.[28] Today, this is but a fraction of artistic production which encompasses the gambit of cultural expression from international and local musicians, photographers, film makers, dance troops, graphic designers, to crafts and folk art, multimedia art, tribal music and dance, Broadway musicals, opera and classical music. And, this, in turn, is only the tip of the iceberg of the marketing, reproduction, and transmission of cultural products which encompasses such services as schools of fine art, speciality magazines, faculties of fine art and cultural studies, professional critics, scholarly journals and books, museums and mega exhibitions, popular cultural magazines, film festivals and awards, broadcast media and the internet, music recordings, advertising and image production, and product design.

This broad and diverse entertainment enterprise is what Max Horkheimer and Theodor Adorno coined the 'culture industry' in their work *Dialectic of Enlightenment*. This expression meant far more than a grouping of production, marketing and mass-media industries as might be used in contemporary economic analysis or liberal political economy.[29] As Adorno later pointed out in his essay "Cultural Industry Reconsidered", the expression 'culture industry' replaced that of mass culture "in order to exclude from the outset the interpretation" that it was "the contemporary form of popular culture"; that it was anything

"like a culture that arises spontaneously from the masses themselves."[30] The 'culture industry' is presented as an enterprise that integrates "its consumers from above"; that forces together, to the detriment of both, "the spheres of high and low [popular] art."[31] High art (specifically modernist art) through its autonomy is viewed as resistant to the 'culture industry', but it too succumbs to the rationality of the market and the drive for capital. As Adorno maintained:

> The cultural commodities of the industry are governed ... by the principle of their realization as value, and not by their specific content and harmonious formation.... The entire practice of the culture industry transfers the profit motive naked onto cultural forms.[32]

From this critical theory perspective, much of the output of the 'culture industry' is intrinsically intertwined with capitalist means of production and ultimately based on conformity and uniformity. For Dwight MacDonald, who coined the terms 'masscult' and 'midcult', this vast cultural enterprise is based on mass appeal, effortless entertainment and the total subjugation of the spectator. It is escapism for the masses.[33]

Horkheimer and Adorno's 'culture industry' represents part of a critical analysis of our modern capitalist system. As the cultural theorist J.M. Bernstein reminds us, this exposition (which is only summarily hinted at here) is one dimension of their broader critique of "the economic organization of modern capitalist society" as providing the "final realization of instrumental reason and self-destruction of Enlightenment"; that is, as a final turning against the Enlightenment's aims of freedom and happiness.[34] For Adorno and Horkheimer, it is the capitalist system's unique tendency towards the universality of production for exchange (rather than social use) that leads to greater integration and uniformity. An underlying supposition of this analysis is that, in the long-run, a capitalist

system reduces real choice. While capitalism has allowed for great technical progress and material wealth, it does not necessarily ensure individual freedom and happiness, but rather, left unchecked, it may suppress these humanist aims through the excesses and extremes of political rationalization and the reductive and standardizing tendencies of the market. Neither political or economic freedom can be taken for granted even in the most social democratic of capitalist states.

Emerging in the late fifteenth and early sixteenth centuries, capitalism has displayed considerable variation over time and from place to place.[35] In the span of five centuries, capitalism has gone through several phases and experienced many national-regional variations rising out of differing social-historical and cultural *milieu*. There have been several industrial revolutions in Western European countries, in North America and Japan in the eighteenth and nineteenth centuries; an early phase of global capitalism in the late eighteen hundreds and first decades of the nineteenth hundreds spurred by turn-of-the-century imperialism and innovations in transportation; a global financial crisis and depression in the 1930s; Fordist production and mass consumerism which flourished after the Second World War in conjunction with interventionist Western governments; the impressive growth of East-Asian capitalism initially spurred by the Japanese recovery and more recently the re-emergence of China as a dominant world player; the explosion of global financial capital beginning with the demise of the Bretton-Woods system in the early 1970s; and, an information revolution which is an important factor behind the late twentieth-century phenomenon of globalization. This latest phase, characterized by extreme capital mobility, dramatic technical innovations, intense global competition, highly integrated global

production systems (e.g., China as the 'manufacturer to the world'), very large global corporations and a large and expanding service economy, has been variably coined post-industrial capitalism, the information age and the knowledge-driven society.[36]

Despite all its variations and phases, it is arguable that capitalism exhibits several unique characteristics that set it apart from other social orders in human history. This idea is not a new assertion. For example, Horkheimer and Adorno in their social-philosophical exposition emphasized the universality of production for exchange as endemic to our modern age and as enveloping other tendencies such as: the displacement of inherent value by exchange value; the instrumentality and reductive tendencies of the market; and, the compulsion of the profit motive. Indeed, beginning with Adam Smith, capitalism is described as something distinct and excitingly new. Smith's *Wealth of Nations* provided an enthusiastic, if uncritical, depiction of a capitalist economy organized through markets albeit tempered by government policies in support of societal values (e.g., a common system of justice; regulation of monopoly powers; quality of life for the working poor; a standard of education).[37]

Among the classical political economists, Karl Marx provided one of the more probing assessments of capitalism as a social system. In his uncompleted work *Capital* (Volume One was published in 1867, whereas the other 2 volumes remained in draft form and were edited by Friedrich Engels after Marx's death),[38] Marx depicted capitalism as a system that rested on conflicting principles and tendencies between the social character of production and the institutions of private property, and between 'production for use' and 'production for profit'. For Marx, capitalism had several interrelated features that established

its uniqueness including: commodity production; market exchange; money as the ultimate representation of social power; continuous innovation and its creative-destructive repercussions; the conversion of labour into wage-labour (turning labour itself into a commodity); the creation of surplus value as the excess value created by labour power through the process of capitalist production; and, the perpetual circulation of capital seeking profits.[39] For Marx, "Constant revolutionizing of production, uninterrupted disturbance of all social relations, everlasting uncertainty and agitation" distinguish the capitalist epoch from all others.[40]

Max Weber provides another critical social-economic analysis. His account portrayed capitalism as a modern phenomenon that represented a sharp break from the past, involving a new code of economic behaviour. Weber saw capitalism as a complex system of institutions, characterized by a high degree of technical rationality. While he did not deny the importance of Marx's economic conditions, he argued that it was incomplete. For Weber, religious world views were being disintegrated, and Western culture secularized through a process of 'rational disenchantment'. Modern societies were emerging through a process of rationalization and their structures forming around two functionally intertwined systems – the one being the capitalist enterprise and the other the bureaucratic state. Weber drew attention to ethical and cultural differences as decisive factors in the early rise of modern capitalist societies in certain Western countries versus others and in the West versus the East. This is the well-known thesis of Weber's *The Protestant Ethic and the Spirit of Capitalism* (1904-05), wherein he argued that specific religious ethics, namely Protestantism, had a unique tendency towards rational conduct and that this was "one of the fundamental elements

of the spirit of modern capitalism and, not only that but, of all modern culture."[41] Thus, for both Weber and Marx, capitalism must be seen as being inextricably intermeshed with a distinctly modernist experience of space and time, that has come to be named *modernität*, *modernité*, modernity.

Invariably, capitalism has been viewed as a distinct social system with different thinkers placing greater or lesser emphasis on a range of institutional attributes and an ethic or code of behaviour conducive to market exchange and an expanding commercial life. The differing emphasis may well be conditioned by the differing visions of the thinkers in question, including their ideological positions and the particular variant of capitalism they were analysing. In this respect, Heilbroner and Milberg provide a useful attempt at synthesizing the key attributions common to all variants. They identify three institutional characteristics of capitalism as a social order: the drive for capital or capital accumulation as the source of political power and prestige; the market as the organizational mechanism of the system; and, an administration bifurcated into public and private realms. A discussion of these key attributes is important to further contextualize our understanding of economic value, its treatment within the discipline of economics and its relation to other modes of social valuation, in particular with respect to our modern idea of art.

First, under a capitalist system the political power and prestige of the society's dominant class depends on the accumulation of capital. As Heilbroner and Milberg argue, there is a distinction to be drawn between the notion of wealth and capital which magnifies the importance of this social-political attribute of capitalism. Wealth denotes a store or stock of prized possessions such as gold coins, rare jewels or *objets d'art*. Capital, on the other

hand, takes on a dynamic form as a self-expanding process. That is, 'wealth-as-capital' is used to generate more capital whether through the production of various commodities, which are then sold at greater than costs, or within financial markets. In finance the objective is to lend or borrow money in order to make more money (debt financing), and to increase capital gains through the buying and selling of stocks, bonds and currencies or relatively newer financial devices such as futures and derivatives. It is this pursuit of profit, as a key imperative of capitalist competition, that pushes firms to innovate, to develop new products, seek new markets, compete for high-skilled labour, relocate productive operations, create new wants and needs, and to cultivate image. Failure to maintain profitability, or to devise protective strategies that convince financial backers of future profitability, could mean absorption by a more successful firm or eventual failure and dissolution.

The need for continuous innovation is embedded in the drive for capital as part of the process of capitalist modernization that has been described by the economist and historian Joseph Schumpeter as 'creative destruction'. This process entails the willingness to uproot, tear down, speed up or destroy in order to reshape the competitive landscape, gain advantage and create new possibilities for profitability. For Schumpeter, it is the entrepreneur who is the creative destroyer *par excellence* – who pushes social and technical innovation to extremes and thereby assures human progress.[42] As David Harvey explains in his book, *The Condition of Postmodernity* (1990), capitalist modernization is "very much about speed-up and acceleration in the pace of economic processes and, hence, in social life."[43] In a narrow sense, 'creative destruction' is a metaphor for a compulsion to invest in new capital assets even at the risk of supplanting (in effect accelerating the devaluation of) existing productive

investments. For Harvey, however, who applies a Marxian analysis, it is not the heroic entrepreneur, but rather the "coercive laws of competition and the conditions of class struggle" that make for capitalism's technological dynamism, and makes the image of 'creative destruction' so germane to the process of modernization.[44] As he puts things, it is "at times of economic difficulty and intensifying competition" that firms are "forced to accelerate the turnover of their capital; those who can best intensify or speed up production, marketing, etc. are in the best position to survive."[45] This 'creative destruction' in the economy, which is so intertwined with the drive for capital, is part of the *élan* of modernity, punctuated by varying phases of societal upheaval, transformation, relative stability and fluctuating psychic episodes of frantic excitement, fear and dispassionate *ennui*. David Harvey characterizes this periodic acceleration of economic processes and social change as an occurrence of time-space compression in the social fabric of modern life.

At the turn of the twenty-first century, the drive for capital is perhaps most obviously exhibited in the dramatic expansion of financial markets which shows no sign of abating. This process of expansion is characterized by large waves of mergers and acquisitions, the proliferation of publicly-traded companies and a strong belief in the relatively benign attributes of the stock market. Collectively, this may be coined as a form of transactional capitalism. As a consequence of the complete reorganization of the global financial system beginning in the early 1970s, which was prompted by a switch from a gold-exchange standard to a flexible float system (i.e., the demise of Bretton Woods), and the ensuing massive deregulation of world financial centres, global capital flows and transactions have grown exponentially. For example, the so-called eurodollar market expanded from

$11.4 billion in 1972 to $178 billion by 1981 and $429 billion by 1991;[46] the inflow of foreign direct investment (FDI) increased from $57 billion in 1990 to over $1.3 trillion in 2000; cross-border mergers and acquisitions (a subset of FDI inflows) were worth $51 billion in 1990 and grew to $1.1 trillion in 2000;[47] transactions in the world foreign exchange markets grew from $70 billion a day in the 1980s to more than $1.5 trillion a day two decades later (this is also a very volatile exchange with most transactions undertaken for durations of less than a week);[48] in 1999, as part of the build-up of the high-tech bubble, trading on the DOW index broke through the once unfathomable 10,000 level. These financial flows and transactions have grown at a faster pace than either global output (factor-cost gross domestic product (GDP)) or world merchandise trade which has itself outpaced the growth of world output since the 1950s.[49] In the case of the turnover of foreign exchange, the volume is many times larger than the value of world trade or global output.[50] A net effect is the growing capitalization of global financial institutions principally through mergers and acquisitions (e.g., in 1992 the stock of international bank assets was more than double the volume of world trade).[51]

As the American economist Paul Krugman states in his work, *The Accidental Theorist* (1998): "It is a truth universally acknowledged that the growing international mobility of goods, capital and technology have completely changed the economic game."[52] In this world, maintaining short-term profitability becomes ever more important, particularly for companies that access capital through stock markets and rely on capital and money market instruments (e.g., eurodollar loans and futures) to manage debt and cashflow. These practices, which are common and sound financial management tools, nonetheless, increase

corporations' and shareholders' exposure to the volatility of the global financial system. In such a system maintaining a stable or growing stock price is paramount as it is a signal of investment confidence. As a consequence, some companies may become as much concerned with establishing a high price for their stock as with expanding their product markets. George Soros, one of the best known financial tycoons of the late twentieth century, makes this very point:

> If it comes to a choice, the signals from financial markets take precedence over those of product markets: managers will readily divest divisions or sell the entire company if this will enhance shareholder value; they must either acquire or be acquired ... either way they need a high price for their stock.[53]

At the level of a capitalist system, these facts and figures lend credence to David Harvey's assertion that: "The financial systems put into place since 1972 have changed the balance of forces." That is, it gives "much more autonomy to the banking and financial system relative to corporate, state and personal financing."[54]

Although new growth theories acknowledge the dynamism of technological change and innovation, the portrait of capitalism described above seems, at least partially, to contradict the core doctrine of mainstream economics which concerns itself with equilibrium, allocation and rational choice. As Heilbroner and Milberg comment:

> Conventional economic conceptions as rational choice or diminishing marginal utility may apply to the small-scale determinations of day-to-day strategies, but have little or no relevance to the central process of capitalism itself – a process of accumulation, comprehensible only as a manifestation of the suprarational ends of power and prestige that animate every stratified social order.[55]

In this sense, aspects of mainstream economics may be said to have lost sight of the big picture.

From this perspective, the activity of collecting art works remains a symbol of power and prestige not just because art works are rare cultural commodities signifying wealth, but because they too can be used as another instrument in the drive for capital. Art works as real assets become a store of monetary value and a source of collateral for debt financing. Art works as investment vehicles are bought and sold in the expectation of a certain capital gain and, as such, they may become another facet of speculative capital. According to Lloyd's Funds there are four economic reasons to invest in art: art works are "widely recognized as one of the best financial strategies"; "art works are liquid"; historically, they are an effective inflation hedge; transactions are confidential and taxes deferred to time of sale.[56] For the very wealthy, the plastic arts are portrayed as one more aspect of an asset diversification strategy.

A second attribution of capitalism is the market mechanism itself. Adam Smith's famous 'invisible hand' represents the competitive drive for the most advantageous purchase or sale that is the capitalist market.[57] It is the market that coordinates the drive for capital as well as the provisioning of all of the members of a capitalist society. The most important ideal of the market is a conception of economic freedom whereby the individual is presented with a wide range of choice and is free of any constraint on how he uses what he buys. Markets are governed by impersonal relations where each party to a transaction deals with the other on a *quid pro quo* basis and where money income alone determines access to commodities. The market leaves people free to follow their wants without regard for the interests of others. It treats the individual preferences of participants as equal and as a matter of taste provided that the purchaser is able to pay. In this sense, the market is a unique social sphere where one is free to disregard or destroy the inherent value of what one owns, free

from the uncontracted obligations of others and free to disregard the desires and value judgments of others.[58] In the interest of 'pure' science, neoclassical economics takes this way of seeing things one step further by assuming away the social-material context of tastes and the importance of institutional structures and social conventions to the valuing process. That is, in economic analysis it is common practice to treat consumer preferences as given and, often, as unbounded from broader conventions, norms and predispositions that may be inter-generationally transmitted.

There are variations in the nature and scope of markets depending on the commodities traded, the degree of monopoly, the historical development of a legal-regulatory system and other institutions that grow-up around the market. All markets are meeting places of buyers and sellers (whether in a village square, or a centralized exchange for worldwide financial transactions, or an auction sale) formed by groups of intermediaries who buy and sell with the objective of making profits from the price differential of buying and selling different goods and services. It is relatively uncommon for the final purchaser to buy directly from the producer of a particular good. Although the internet and new communications technologies may facilitate direct sales, experience shows that, it is more likely, these innovations will result in a shake-up of established three-cornered relations and, thereby, create new economic winners and losers. For example, in the late 1990s, companies like eBay and artnet.com challenged traditionally practices in the art and antiques market. Older businesses, including Sotheby's and Christie's, responded by spending millions of dollars trying to establish their own internet auction sites. Many of these auction houses subsequently retrenched their online activities, in large part, due to cost considerations and

the fact that, in terms of the high end of the market, the online business model does not seem to work.[59]

When we look at individual markets, intermediaries serve two interrelated functions: from the perspective of a seller, an intermediary focuses demand for a good; whereas for a buyer, he brings supply within reach. In the case of the today's art market, this intermediary function is carried out by several different parties including: the auction houses that deal predominantly with secondary sales as agents for museums, collectors and estates looking to sell particular art works; the art galleries that principally act as agents for living artists but may also have inventories of art works built up over the years; private art dealers that may act as a sales agent for a particular artist or an intermediary for an individual or corporate client in either the purchase or private sale of art works; and, annual art shows (e.g., Art Dealers Association of America (ADAA) Art Show, the Armory Show, the Basel Fair) that provide exhibition space to galleries, private dealers and artists. The auction houses, galleries and private dealers maintain networks of museum curators and individual and corporate collector-investors which they actively cultivate to promote sales and drive-up the market value of the output of individual artists. It is important to mention a second set of institutions that are equally important to establishing the market worth of individual art works and the reputation of artists. This includes the museums, art critics, historians and other art experts that play a central role in establishing the attribution of individual art works and in setting the standards of taste on what is 'good' art. There is also a third set of actors providing art-investment services which include: the information brokerages which specialize in sales-price data; and, speciality financial consultancies often linked to a global financial group

(e.g., Citigroup, British Capital Group) which treat art as a facet of portfolio investment. In addition, there is a range of other factors that typically affect the functioning and shape of markets including such things as taxation (sales, inheritance, export, royalities) and regulations to restrict or ease the export or import of art works. A business law and regulatory framework that supports trade is a necessary precursor to any well-functioning market.

In order to facilitate these three-cornered commercial transactions, markets require a readily acceptable medium of exchange. Money typically provides this vital function although there are instances in history when some other commodity has been used (e.g., the cigarette currency used in post-Second World War Germany). Money is also a unit of account or measure of value that facilitates calculation (today, mainly as a *numéraire* but in the past when precious metals were used as money also as a *monnaie*) and it functions as a standard of deferred payments to be made in the future (as credit or 'fiduciary' money).[60] Finally, money is considered a store of value or a means for carrying purchasing power into the future. Of course, its effectiveness as a store of value over any length of time is dependent on the stability of the price level. Thus, in times of high inflation alternative means of storing value such as art works, collectibles, jewels, precious metals, antiques and real estate are sought out. As David Harvey comments:

> Buying a Degas or Van Gogh in 1973 would surely outstrip almost any other kind of investment in terms of capital gains. Indeed, it can be argued that the growth of the art market (with its concern for authorial signature) and the strong commercialization of cultural production since around 1970 have had a lot to do with the search to find alternative means to store value under conditions where the usual money forms were deficient.[61]

A common, long-term outcome is rising market prices for these alternative assets as well. What is interesting is that in the case of rare art, its price has tended to outstrip the rate of inflation for much of the twentieth century.

Money lubricates market exchange, but more than this it provides the means for comparing the value of all commodities, the profitability, assets and liabilities of firms, the debts of nations and the wealth of individuals. Money is a signifier of economic value but as David Harvey warns "the perpetual danger looms that the signifier will itself become the object of human greed and of human desire."[62] This same sentiment is echoed by the financier George Soros in commenting:

> The dominant value in the global capitalist system is the pursuit of money.... because there are economic agents whose sole purpose is to make money and they dominate economic life today as never before.[63]

Some of the brightest minds the world round concern themselves with finding ways to generate profits without producing a thing. These 'paper entrepreneurs' of global finance make their profits by taking advantage of relative shifts in interest rates, through corporate raiding and asset-stripping, by merging already large corporations into global colossals and by speculating against the stability of national currencies.[64] The main consequence for how we view economic value is that money is de-materialized in that it no longer has a formal link to a precious metal (gold) or the production of tangible outputs. On this point, David Harvey concludes:

> The de-linking of the financial system from active production and from any material monetary base calls into question the reliability of the basic mechanism whereby value is supposed to be represented.[65]

Interestingly, George Soros, the quintessential 'paper entrepreneur', concedes that money is no longer just a means for lubricating the capitalist system but has become its ultimate aim. Money has acquired a sense of "intrinsic" value because it is power.[66] Astronomical prices and earnings may seem less absurd from the standpoint that, for many already powerful people, money seems to have become an end in itself.

Heilbroner and Milberg's third attribute of capitalism, which they characterize as administrative, is the bifurcation of the social order into private and public realms. That is, in a capitalist society there is a demarcation between the activities of commercial life and that of politics and guardianship. The private sector is the realm of the market, the internal organization of labour, firm competition and capital movements. The government or state, on the other hand, is the repository of political powers, law enforcement and the defence of territory. The state imposes a second organizing principle on capitalist modernization through the control of monetary policy, regulation of markets, fiscal interventions, the provision of social and physical infrastructure and taxation. But the state is also dependent on taxation as a source of national revenue, and on global capital flows as a source of credit and as an external force which affects its monetary and fiscal stability. Moreover, while the state provides a set of checks and balances to stabilize growth and promote its own strategies, it does so from within a fixed geographic space. In contrast, capitalist modernization, especially the global circulation of capital, has become increasingly borderless. As David Harvey describes things, there is a "tension between the fixity (and hence stability) that state regulation imposes, and the fluid motion of capital flows"; and this tension is "a crucial problem for the social and political organization of capitalism."[67] Clearly, the

relationship between the two realms is one of interdependence and mutual determination versus unidirectional causation. Since the 1980s, there has been a noticeable increase in the power of the private sector (in particular in the world of high finance), some would argue, at the expense of the ability of governments to control their own monetary and fiscal policy and to intervene in the economic and social life of their citizens. Of course, these economic changes require the implicit compromise or compliance of public policy makers and economists.

In the last several decades, it has become more and more apparent that capitalism is undergoing a dramatic shift as the effects of waves of rapid technical change (particular in the areas of information and communication technologies, new materials and biosciences) and the expansion of global transactions and production systems, are felt by more people in more countries around the globe. This shift, which most argue began in the early 1970s with the demise of the Bretton-Woods system of financial regulation, the OPEC oil crisis and the phenomena of stagflation (stagnant output of goods coupled with high inflation), is characterized as a move from the old industrial paradigm to an information age driven by the competitive advantage of ideas and coinciding with a perceived switch in cultural terms from Modernism to Postmodernism. What seems to be the most pervasive aspect of this shift is a compression of time and space as the world has become, what the Canadian cultural critic Marshal McLuhan called, a 'global village'. As McLuhan envisioned things:

> After three thousand years of explosion, by means of fragmentation and mechanical technologies, the Western World is imploding. During the mechanical ages we had extended our bodies in space. Today, after more than a century of electronic technology, we have extended our central nervous system itself in a global embrace, abolishing both space and time as far as our planet is concerned.[68]

A key question for social theory is whether this latest phase of time-space compression represents a complete rupture with the project of the Enlightenment (perhaps a postmodernist information age), or signifies yet another phase of modernity as proposed by Jürgen Habermas.[69] In humanist terms, the concomitant processes of 'creative destruction' and market rationalization offer both promise and despair; and beyond everything else require reason and understanding if we are to successful navigate our way into the future.

These three mutually reinforcing attributes – capital accumulation, the market, a bifurcation into private and public realms – which set capitalism apart from other social orders is, as Heilbroner and Milberg attest, a sketch of an ideal-typical framework. There are numerous variations of capitalist societies across time and place but the fundamental point "is that a recognizable form of "capitalist" socioeconomic organization can be identified in history."[70] And, to dismiss this broad vision of things in economic inquiry is "to reduce the effectiveness of economics as a tool for understanding society."[71] Acknowledging capitalism as the prevailing social system of our modern age is important for any reading of the history of economics as well as for understanding economic value and how the economic influences other social activities. This broad vision of capitalism as a social system is also an important dimension of reading the history of our modern idea of art – in particular, of how the social-economic identity of tangible art works have changed over time, and how the art world's principle agents create value in the marketplace and help to regulate price.

CHAPTER 3

THE PROBLEM OF VALUE

> From no source do so many errors, and so much difference of opinion proceed, as from the vague ideas which are attached to the word value.
>
> David Ricardo[1]

Varying approaches to value and its relation to price powerfully influence our understanding of economic life. From the classical political economists to the early marginalists, the pivotal position of value for the purposes of pure theory and analysis was understood. Questions raised by value were considered elemental to the foundation of economic thought and to an understanding of the process of social provisioning. Consideration of the problem of value was a key dimension of any rational schema on how the economy and markets worked. For these early economists, value theory was a founding doctrine of a new science. As this chapter will explore, each in their own way tried to elucidate a unifying theory which could explain underlying economic forces and the surface phenomena of market price. These varying theories and related analytical models stemmed from competing visions of economic life.

As Alfred Marshall was famed for saying: "It's all in A. Smith."[2] The *Wealth of Nations* set the stage for the development of a modern economics and its foundation in a theory of value and price. For Marshall, W. Stanley Jevons, John Stewart Mills, David Ricardo and other prominent figures, Smith's explanation of the phenomenon of

market price, 'natural' price, the component parts of price, the nature of profits and the roles of labour and capital, represented an authoritative wellspring. As Adam Smith explained it, 'natural' price was the price at which it was possible to supply, in the long-run, each commodity in a quantity that would equal effective demand at that price. It is the price that just covers costs over the long-run and that, in turn, equals the sum of the wages, profits and rents paid out.[3] But, in addition to placing the proportion of supply and demand as well as the cost-of-production at the centre of his schema, Smith also argued that labour "is the only universal" measure of value or "the standard by which we can compare the values of different commodities at all times and places."[4] As one may discern from these brief comments, there is much debate as to what type of value theory Adam Smith actually favoured. But as Schumpeter suggests, the *Wealth of Nations* represents one of those points of synthesis in economic thought. In other words, it is a 'classical situation' which attempted to accommodate and reconcile a spectrum of views and findings. As such, it became a source document for what would evolve into several divergent theories of value and price including: modern utility theory, Ricardian embodied labour theory of value and a cost-of-production approach. Importantly, these different theories and their various off-shoots inform very different visions of social-economic life. In this way, Smith is the father of both classical political economy and modern economics.

Alfred Marshall, the great *fin de siècle* synthesizer of what would become the new orthodoxy of neoclassical economics, found virtue in Smith's clarification of the paradox of value and his analysis of supply and demand. In essence, he saw it as supporting the marginalist's rehabilitated notion of 'use value' encompassed in the concepts of marginal and

total utility. The marginalist's approach modified 'value in use' by shifting the emphasis from the inherent characteristics of a good, fulfilling some commonplace use, to a subjective interpretation of the wants or desires of the individual who is assumed to be a rational actor out to maximize the satisfaction of her wants or desires. Utility is defined to carry direct meaning only in reference to goods that satisfy the wants of the rational individual through the process of exchange. There is a switch from a common-sense notion of usefulness that is socially constructed to a metaphysical concept of utility that is centred in the axiom of rational choice and the maximizing behaviour of the individual in the marketplace. As William Milberg suggests, from this point of view, individual choice is an optimization process that requires that all possible utility be rendered from a given situation, up to and including that resulting from the last, marginal, penny spent.[5] In short, 'use value' is internalized as the calculable wants of *homo economicus*. Moreover, as Marshall explained for purposes of analysis:

> The term value is relative, and expresses the relation between two things and time.... The price of anything will be taken as representative of its exchange value relatively to things in general, or in other words as representative of its general purchasing power.[6]

In this way, we can begin to see how the notion of an underlying basis of value governing the machinations of economic life could become directly equated with price. The paradox of value is made moot because value appears to be made synonymous with price. Indeed, in a narrow sense of monetary worth and purchasing power, it is hard to argue against this interpretation. However, through a process of simplification for the purpose of pure theory marginalism left much out. It lost much of the qualitative descriptive power, nuance and fervour of what came before, as well as the web of connections between the economic and

other social-cultural dimensions of modern economic life. More pointedly, in terms of gaining a better understanding of the possible sources or origins of economic value, this definition falls short of the mark, relying too heavily, in terms of its explanatory power, on the isolation of the subjective interests of individual economic agents.

In contrast, David Ricardo, whose major economic thesis *On the Principles of Political Economy and Taxation* was first published in 1817, developed his theory of value around Smith's views on labour as the only universal standard. Ricardo's extrapolations on an invariable measure of value stemmed from his quest to develop a rationale schema that could explain, in relatively simple terms, the relation of the normal rate of profit to price formation and the sustainability of capitalist production. He dismissed utility as a suitable explanation of 'value in exchange', regarding the former as a condition of the latter only and not sufficient as an underlying ordering principle. For Ricardo, utility could not be a measure of exchangeable value, although it was important for it.[7] Ricardo went about building his value theory around Smith's assertion that "the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another."[8] More precisely, for Ricardo, a commodity ultimately derived its exchangeable value from two 'sources': from its scarcity and from the quantity of labour required to obtain it.[9] As would Marshall some sixty to seventy years later, Ricardo made use of the notion of 'natural' price and cost-of-production as a way of explaining the actual movement of prices in the marketplace. He adopted the classical assumption that a commodity's cost-of-production was the monetary expression of its value, but at the same time maintained that the ratio by which two commodities are normally

exchanged is nearly in proportion to the quantity of labour required to produce them.[10] Ricardo's analysis of embodied labour as a standard measure of underlying value was, in turn, critiqued by Karl Marx as he developed his own labour theory of value based on such notions as labour power and the surplus value of labour. For the mostly radical leaning Ricardians of the 1830s, and subsequently for Marx, the main focus was the advocacy of labour as an invariant standard of value based in the process of production.

As a progenitor of modern economics, Adam Smith also articulated an adding-up, or cost-of-production, approach to the formation of price. Indeed, this approach occupied a central part of Smith's analysis.[11] As Smith emphasized in Book One, chapter six: "Wages, profit, and rent, are the three original sources of all revenues as well as of all exchangeable value."[12] This approach is concerned with providing a reliable method for establishing the price of a commodity based on the perceived normal price of its cost elements. That is, with cost-of-production the price of a commodity is given by the price of inputs required to produce it – that is, it is the basis of the 'natural' or real price to which nominal or market price gravitates. Interestingly for Ricardo, it was "cost of production which must ultimately regulate the price of commodities."[13] Marshall also attempted to integrate cost-of-production into utility theory as the supply half of his famous market 'scissors' of supply and demand. Taken on its own, cost-of-production does not concern itself with identifying any abstract order-bestowing principle. Nonetheless, it is important to note that cost-of-production does not preclude the possibility of establishing order on a social-historical basis. As Robert Heilbroner points out in his article "The Problem of Value":

> The purpose of value ... is to provide a means of linking the phenomena of the empirical world, mainly prices, with some principle or structure. The cost-of-production theory rules out any *abstract* order behind prices – any order that reflects some "essence" of the economic world – but it does not rule out the possibility of establishing order on the basis of historical realities. Wages and profits in various forms are subject to inertial tendencies preserved by pecking orders, reference groups, inter-generational transfers of tastes and behavior, community sanctions, legal barriers, and the like, all of which create a framework of order sustained by powerful, although often unacknowledged, social processes.[14]

As Heilbroner suggests, cost-of-production can be used to explain prices as the outcomes of "*institutionally determined* flows of wages, rents, and profits with suitable allowances for economies of scale and other technological considerations."[15] This implies an approach to economic value steeped in the social-historical context and structure of production and distribution versus a search for an invariant standard based on a physical endowment of a commodity such as labour or a 'natural' law based on the inherent psychological regularities of the maximizing individual. In this way, Adam Smith's paradox of value may be placed within the web of complexities which underlie social valuing and values.

Many economists have, subsequently, made contributions to the debate on value and price, in particular, with respect to the controversy between Ricardian labour theory of value and utility theory. Two individuals of note, Michael Kalecki and John Maynard Keynes, are selected here for their specific offerings to price theory, aggregate output and economics in general. It is argued that their writings actually help to strengthen the case for an institutional-based approach to value that looks behind the veil of pure theory to the machinations of markets and uncertainty of the real world.[16] For instance, Kalecki's writings on price theory, in particular his concepts of mark-up and the degree of monopoly, helps to clarify how actual prices are established within the framework of a cost-of-production approach. Keynes' principle of uncertainty and his focus on the roles of effective demand and

investment in modern economies establishes a provocative vision of things which is still relevant. His unorthodox explanation of investment and liquidity preferences continue to provide useful insights into people's choices and, more generally, into the process of capital accumulation itself.

While the various approaches to economic value outlined above differed in fundamental ways, there seemed to be a general agreement on the status of rare art works and *objets d'art*. Beginning with Smith through to Ricardo, Jevons and Marshall, the commonly held view was that the valuing of these types of commodities did not conform to the central precepts of their theories of value. For David Ricardo, the value of "rare statues and pictures, scarce books and coins" was "determined by their scarcity alone" and varied "with the varying wealth and inclinations of those who are desirous to possess them."[17] Nassau Senior, an anti-Ricardian, essentially agreed with Ricardo in stating that "the value of such commodities are subject to no definite rules ... they are said to bear a fancy price, that is a price depending principally on the caprice or fashion of the day."[18] Jevons took the "fact that there are [such] things" which are "absolutely incapable of production" as proof of the invalidity of "the notion that value depends of labour."[19] But, he also accepted that the price of such commodities were indeterminate and "no consideration of cost of production or utility [could] apply."[20] And Marshall, in the end, essentially agreed with Jevons when he wrote:

> We may put aside ... such things as pictures by the old masters, rare coins and other such things which cannot be "graded" at all ... [as] the price at which such a thing if sold will depend very much on whether any rich persons with a fancy for that particular thing happen to be present at its sale.... The "equilibrium price" for such sales is very much a matter of accident.[21]

Some one hundred years later, William Baumol in studying the sales prices of pictures and whether paintings make good investments, would essentially conclude the same thing – that is, the long-run prices of art works are "inherently rudderless" and there is no "equilibrium level."[22]

It is these very conclusions that make the market for art works a point of fascination. Why concern ourselves with this particular problem of value when so many have found that the exclusion of the rare art work from their rational schema was of little consequence to its broader explanatory power? For one, as Michael White suggests in his article "Obscure Objects of Desire?", the problem of rare art works provides a way of illustrating "significant changes in economic theory" as, while the conclusions reached by Ricardo and Marshall on the economic value of art were similar, their reasons were different.[23] For Marshall, the central problem was the unpredictability of demand for such rare commodities which made the equilibrium price "very much a matter of accident."[24] In other words, their prices did not fit with neoclassical value theory and its method of equilibrium analysis. In contrast, for Ricardo, the value of these commodities was unhinged from their cost-of-production and the quantity of labour originally required to produce them. Since their supply was given, and could not be increased by competition, there was no long-run or 'natural' price to which art works could gravitate. These scarce commodities were "monopolized" and had "no necessary connection with their natural [economic] value."[25] In short, for Marshall and neoclassical economics, the central problem was the indeterminacy of demand, whereas for Ricardo it was the fact of scarcity and the irreproducibility of these rare goods. The competing visions and resulting theories provided different reasons for why rare art was a special case.

Secondly, as an exception to the general rule of the key determinant(s) of value – be this marginal utility and equilibrium analysis, or embodied labour and the real cost-of-production – the market for rare art works makes for a fascinating case of how market prices are established and evolve within a social-historical context. As will be argued through the following discussion of the history of our ideas on economic value and price, while a thoroughly unifying theory remains problematic, aspects of economic analysis combined with a method of description (albeit multi-disciplinary) can still provide useful insights into the formation of markets, the economic identity of various commodities and assets, changing tastes, price performance and the valuing process itself.

Classical Economics and A Labour Theory of Value

The most prominent proponents of a labour theory of value were David Ricardo and Karl Marx. Ricardo and Marx developed variants of an embodied-labour theory informed by very different interpretations of the capitalist system in which they lived. Certainly for Ricardo, his theory was shaped by the desire to demonstrate that his conception of labour-time value was connected to the concrete world of profits and price formation, and that almost all of the seemingly inherent analytical difficulties could be overcome. From an economic perspective, a central measure of the efficacy of any theory is its power to explain the phenomenal world of material activity and its capacity to, then, demonstrate that this explanation is empirically verifiable or, at minimum, not falsified by empirical analysis. The so-called transformation problems of Ricardo's labour theory were considered significant flaws. But arguably, analytical superiority was not the only reason for the rise of

marginalism. The prevailing vision of things in the last one-third of the nineteenth century seems to have played an important role in the development of a new classical situation and the rise to preeminence of a utility theory of value, aspects of which are traceable to the scholastics and to the natural-law philosophers of the seventeenth and eighteenth centuries. It should be remembered that, at the time, marginalism had its own transformation problem, this being the measurability of its concept of utility. Moreover, it could no more explain the special case of irreproducible products like rare art works than could Ricardo's labour theory. These competing approaches to value also shared another common root. They found their philosophical basis in natural law and, more specifically, in the case of the marginalists, utilitarianism.[26]

The basic premise of a labour-value approach is that labour, by virtue of its universal presence in produced goods, imparts some quantum of value that establishes the normal or natural price relation. The power of labour to embody some order of value is related to its influence in transforming objects, through the process of production, from the natural to the social world. A key postulate is that other factors of production, principally capital goods, are themselves produced by labour. We must remain mindful that for the classical economists the search was for an invariant standard of value as well as a regulator of price. More precisely, they wanted to explain what accounted for a commodity having exchange value in the first place, and on what universal basis it could be said that the 'natural' price of a given commodity was set. Choosing labour as a natural physical input to all production, cutting across all ages from the "early and rude state of society"[27] to industrial capitalism, has a seemingly common-sense appeal if one is looking for a standard which is commensurable.

In the schema of natural law, attaching such significance to the physicality of labour as the basis of price could be interpreted as an attempt to place economic knowledge on the same footing as that of the 'pure' or natural sciences – that is, as based on a set of universally valid laws that ground a social phenomenon within a natural order and that may, then, be subjected to mathematical formulation.

David Ricardo's labour theory of value proceeded hand-in-hand with a critique of Adam Smith's elucidations on value – in particular, on 'natural' price, cost-of-production and the role of labour and capital.[28] Ricardo was concerned with pursuing the logical consistency of Smith's various statements on value and developing an integrated theory of value, of profit and of rent, while attempting to use the precision of mathematical demonstration. Karl Marx, while dismissed as a heretic by several renowned economists,[29] can be distinguished as "Ricardo's only great follower"[30] as his approach to economic value represented an extension of Ricardo's analysis of an embodied-labour theory of value. As Joseph Schumpeter explains:

> Marx used the Ricardian apparatus: he adopted Ricardo's conceptual lay-out and his problems presented themselves to him in the forms that Ricardo had given to them. No doubt, he transformed these forms and he arrived in the end at widely different conclusions. But he always did so by starting from, and criticising, Ricardo. Criticism of Ricardo was his method in his purely theoretical work. [31]

As already mentioned, Ricardo and Marx espoused variants of an embodied-labour approach to value. Yet, their visions differed dramatically from one another. Ricardo concerned himself with devising a consistent conceptual method for determining the 'natural' or long-run price of things as part of an integrated theory set within the framework of a class-stratified social system (composed of the capitalist, the landlord and labourer as based on the *tableau économique* of the physiocrats and Turgot) where the process of capital accumulation

was pivotal to social and economic progress. Ricardo wanted to provide a more grounded explanation of profit as the most important source of capital accumulation (compared to the rent of the landlord) within the context of a previously developed theory of value (i.e., Adam Smith's statements on labour).[32] He considered an adequate level of profitability as extremely important for economic progress for without it investment in new machinery and equipment and new modes of transportation (i.e., canals and trains) would not be sufficient to maintain growth. Ricardo also wanted to base his explanation in the process of production. In the early eighteen hundreds sustained economic expansion was a relatively novel phenomenon. A key source of this new dynamism was a growing capitalist class which was made up of the owners and operators of new factories and mechanised methods of transport. The fact was that a large supply of labour was crucial to industrial expansion and labour costs made up a very large portion of total costs in the production of goods. Ricardo was interested in explaining observable economic phenomena with the purpose of revealing and removing hindrances to economic growth. He was preoccupied with developing a consistent theory that approximated the facts of the real world and supported profit making and economic expansion as sound public policy. An example of this concern was Ricardo's agitation for the repeal of the Corn Laws in England which restricted the import of cheap grain from the European continent and America and, thereby, protected the interests of the old landed aristocracy to the detriment of both the capitalist and the labourer.[33] Ricardo's main motivation lay in accelerating the industrial revolution by making the capitalist system more efficient and sustainable which, in his view, was in the long-term interest of all of English society.

Karl Marx, writing some thirty years after Ricardo, was engaged in a somewhat different project. His economic theory as set out in *Capital* was part of his general conception of a process of historical development characterized by a succession of different modes of production (e.g., feudalism to capitalism, capitalism to socialism) each with its own distinct ownership patterns, means of exchange, technical forms and division of labour. Underlying this schema was Marx's interpretation of a dialectic of development whereby man as part of nature was subject to the determinism of natural law, but man as a conscious being possessed the capacity to struggle against nature and ultimately subject it to his will. As the economic historian Maurice Dobb points out, for Marx this struggle for freedom represented "the unique role of human productive activity, or human labour" that formed the "ground-plan of human history."[34] From this starting point, we can begin to perceive the significance that labour, as human productive activity, played in Marx's analysis and why Ricardo's embodied-labour theory of value was such a logical starting place for Marx's own theory of value.

In contrast to Ricardo, Marx was concerned with showing the inconsistencies and inequities of capitalism. The objective behind Marx's political economic theory lay in revealing the systemic exploitation and inherent dehumanization of the worker as he became alienated from his own means of production. It was not explicitly intended to solve the problems of designing a more efficient and equitable set of market rules. As a transitional stage within Marx's system of historical development, capitalism was under threat of breaking down under the weight of its own contradictions. As Ronald Meek explains, Marx's vision of capitalism stemmed from his interpretation of the "socio-economic production

relation" between capitalists and workers which for Marx gave "birth to the contemporary forms of unearned income" (net profit on capital, rent on land, and interest) and "the possibility of the large-scale accumulation of capital."[35] In turn, this accumulation of capital allowed for the possibility of "rapid technological change" which then "interacted with the capital-labour relation to determine the main features of the structure of capitalism."[36] For Marx, a number of other historical facts were built into capitalism that, taken together, led to instability. These facts included: a perceived tendency for the rate of profit to progressively decline; the increasing subordination of previously independent workers to capitalist forms of organization; the emergence of monopoly capitalism; the deterioration of the conditions of workers; and the growth of a 'reserve army' of workers.[37] Notably, the build-up of investment in factories (i.e., fixed capital) and rapid technological changes were considered the twin engines of growth under industrial capitalism. However, if technical advances slowed down, and as the stock of fixed capital grew ever larger, the expectation was that the rate of profit available on new investments would inevitably decline. Over the long-run, a dramatic decline in profitability would lead to a stagnation of growth, rising involuntary unemployment and ultimately the possible breakdown of the entire system. Marx's political economy was part of a broader social philosophy that became a fount for radical politics and revolution. As a whole, Marx's work contained very dangerous ideas for the new science of economics even though aspects of his analysis of capitalism as a social system offered an insightful exposition on modern economic life. We also know, in hindsight, that Marx significantly underestimated the capacity of capitalism to sustain itself through social (e.g., organized labour, modern human resource practices) and technical

innovation, as well as the will of modern democratic governments to intervene in order to help moderate social inequities and mediate volatile cyclical fluctuations.

Turning to analytics, Ricardo's embodied-labour theory maintained that labour-time, or the quantity of labour embodied in the production of a given commodity, was the ultimately source of value. In putting forward this view, Ricardo was arguing against major elements of the *Wealth of Nations* that seemed to argue for a commandable labour theory of value linked to a cost-of-production approach to relative price. As Ricardo wrote:

> The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or lessor compensation which is paid for that labour.[38]

It is not the exchange value of a given commodity (be this labour itself, or any other good) whose unit serves as an invariant standard, but the labour-time that a given commodity embodies. That is to say, theoretically, what was needed to have a commodity of invariant value was to imagine one that always embodied the same quantity of labour. This 'average' commodity would then provide a stable means for measuring the variations in the exchange value of all commodities and consequently the relation of the rate of profit to relative price. As Joseph Schumpeter points out, the implication of Ricardo's "logical *tour de force*" is that "commodities acquire absolute values, which were capable of being compared, added up, and of increasing and decreasing simultaneously, the very thing that was impossible so long as exchange *value* was defined simply as exchange *ratio*."[39] Although Ricardo did not fully develop the idea of absolute value in his *Principles*,[40] this is what Marx found so appealing about Ricardo's hypothesis. Indeed, it fit well with Marx's broader system of ideas.

There are a number of other points that should be mentioned in order to complete this brief survey of Ricardo's theory. As already noted, Ricardo viewed utility as a necessary condition for exchange and that possessing utility commodities derived their exchange value from their scarcity and the quantity of labour needed to produce them. Ricardo considered that "the relative quantity of labour" is the foundation of "the exchangeable value" of commodities and regulates "their relative price" excepting those things which cannot be increased in quantity by "the exertion of human industry."[41] Ricardo set aside these irreproducible commodities including such things as "rare statues and pictures, scarce books and coins" as forming "a very small part of the mass of commodities daily exchanged in the market."[42] In effect, Ricardo created a dichotomy of types of commodities and developed a theory of value that encompassed the one type of things which were in the vast majority – that is, those whose quantity could be increased by human industry. Here, Ricardo was doing what all economists have since learned. He was setting out the assumptions upon which his hypothesis was based. Thus, right from the start, the explanatory power of Ricardo's embodied-labour theory excluded certain types of goods. His theory was, by his own admission, not all encompassing. But interestingly, Ricardo's analysis did provide a means of interpreting the market, or short-run, price of scarce things such as art works. As Ricardo described:

> [For] those works of art, which for their excellence or rarity, have acquired a fanciful value, [their] exchangeable value is at a monopoly price [with] the competition ... wholly on one side – amongst the buyers.[43]

Moreover, this monopoly price may be higher or lower from one period to another and was contingent on the extent of the market – that is, "according as the society is rich or poor, as

it possesses an abundance or scarcity of such produce."[44] While the value of these unique commodities was "wholly independent of the quantity of labour originally necessary to produce them," and their price beared "no necessary connection with their natural price," Ricardo's analysis still allowed for a discussion of the market price of rare art works in terms of the proportion between supply and demand.[45] In other words, their short-run price may be said to behave in a similar fashion as the "market price of all commodities for a limited period," rising and falling with the proportion of supply to demand or demand to supply.[46] Notably, Ricardo did not attempt to explore the origins of the extreme monopoly nature of these goods – this will be the subject of subsequent chapters of this study.

Returning to his labour theory of value, another of Ricardo's premises was that, in order to obtain the total value of output, the labour required to extract raw materials and to produce the capital goods used in the production of one unit of a given commodity must be accounted for along with the current labour expended. The resulting embodied-labour value related to the 'natural' price or cost-of-production of the given commodity or, expressed differently, that price which prevails over the long-run. The value realized in exchange was then divided among the labourer (wages), the capitalist (profit), and the landlord (rent). Ricardo also assumed that skill differentials among labourers were reflected in wage differentials and that these differentials were constant over time. That is to say, a skilled worker would be paid twice as much per hour as a common labourer (or some other multiple); or one hour worked by the former was equivalent to two hours of the latter.[47] It was assumed that since such differentials were relatively constant, there was "little effect, for short periods, on the relative value of commodities."[48] This latter assumption seemed to

appeal to the market mechanism, and not embodied-labour, as a means of evaluating different qualities of labour.

Finally, for many of his detractors, the sharpest blow to Ricardo's labour theory of value, in particular his quest for an invariable standard of value was his seeming acknowledgement in Book I, sections IV and V, of another cause of value. As Ricardo wrote in the third edition of *Principles*, the principle that the relative prices of commodities are regulated by the quantity of labour is "considerably modified by the employment of machinery and other fixed and durable capital."[49] Ricardo would reaffirm his position in a letter to John Mill, by stating that exchangeable values of reproducible goods vary "owing only to [two] causes: one the more or less quantity of labour required, the other the greater or less durability of capital – that the former is never superseded by the latter, but is only modified by it."[50] Ricardo had observed that different industries employ different proportions of current labour and fixed capital (i.e., facilities and equipment) and that the durability of the fixed capital of different industries also varied significantly. Given that changes in wages only affect current labour and not labour already expended in creating fixed capital, any such change would affect the price of outputs across industries disproportionately, even if total labour-time remained constant. That is, differences in the durability of fixed capital and in capital-labour ratios across industries resulted in prices that would not 100 percent correspond to labour-time values.[51] Cost-of-production ratios and embodied-labour ratios of specific commodities produced in different industries with different mixes of fixed capital could only ever be nearly in proportion. It is in this sense, that Ricardo referred to his embodied-labour theory as "an approximation to a standard measure of value."[52]

This difficulty of accounting for the durability of capital (or differences in time) as part of labour-time value is considered the main transformation problem of Ricardo's approach. The problem of equating the skill differentials (including natural abilities as well as acquired ones) of different workers is often referred to as a second transformation problem of an embodied-labour approach to value. Ricardo was unable to provide adequate proof that labour ought to be an invariable standard of value. It is important to note that some one hundred years later the Cambridge economist Piero Sraffa, who painstakingly researched and edited the complete works of David Ricardo, provided a limited proof in his own work *Production of Commodities by Means of Commodities* (1960) although this remains a point of contention within contemporary economics.[53] Sraffa devised a composite commodity in order to analyse the nature of profits and pattern of prices, and to derive the value of net output and inputs (i.e., initial capital stock) in terms of the composite unit, which he then demonstrated corresponded with a specific set of production prices. To be clear, Sraffa's work made no reference to the embodied-labour value theory but, importantly, it also made no reference to demand in the determination of prices of production. As Joan Robinson has commented, it made "no room for demand equations in the determination of equilibrium prices and rejected the claim that the price of every commodity either immediately or ultimately resolved itself into wage, profit and rent."[54] And, for other leftist economists, such as Ronald Meek and Maurice Dobb, it was an epoch-making work which rehabilitated the Ricardo-Marx approach to problems of value and distribution, and showed that relative prices were "independent of the pattern of consumption and of demand."[55]

Marx's labour theory of value was similar to the Ricardian apparatus and added its own precision and elaboration at various junctures. But Marx did not overcome the technical problems related to measuring labour-time values that could then be transformed into a consistent measure of price observable over the long-run. In part, this may be because Marx concerned himself from the start with developing the idea of an absolute value of things rather than devising an empirically reliable method of explaining the actual prices of things. As Schumpeter explains:

> Ricardo, the most unmetaphysical of theorists, introduced the labour-quantity theory of value simply as a hypothesis that was to explain the actual relative prices – or rather the actual long-run normals of relative prices – that we observe in real life. But for Marx, the most metaphysical of theorists, the labor-quantity theory was no mere hypothesis about relative value. It *was* (the 'essence' or 'substance' of) their value. They *were* congealed labor.[56]

For Marx, value for every commodity, and for output as a whole, was always identified with embodied labour regardless of how relative price functioned. His objective was to show how, under conditions of perfect competition, the end products were sold at prices that were no longer proportional to their absolute values. That is, long-run deviations in price represented a redistribution of value among commodities and not alterations in an absolute value.[57] While for Ricardo value and price could be seen as different sides of the same coin, for Marx value and price became different coins.

There is no doubt that the technical problems discussed above contributed to the less-than-favourable reception of David Ricardo's embodied-labour theory of value which came under increasing criticisms after his death. It is also clear that after Ricardo's death none of his followers were really up to the task of solving these problems while holding fast to Ricardo's vision of capitalism as a progressive social order. Joseph Schumpeter suggests,

"Ricardians were always in the minority" and it was only "Ricardo's personal force" which created "the impression that his teaching dominated the thought of the time."[58] Indeed, the majority of Ricardo's contemporaries and subsequent detractors supported a primitive utility theory of value. Again, as several economists maintain, changes in the political climate, combined with the social implications drawn from Ricardo's ideas on value, made Ricardian theory not so much irrelevant as dangerous. As Joan Robinson and John Eatwell comment,

> It is not so much a weakness in pure theory as a change in the political climate, that brought the reign of the classics to an end. Classical doctrines, even in their most liberal form emphasized the economic role of social classes and the conflicts of interest between them. In the late nineteenth century, the focus of social conflict had shifted from the antagonism of capitalist and landlord to the opposition of the workers to capitalists. Fear and horror aroused by the work of Marx were exacerbated by the impact throughout Europe of the Paris Commune of 1871. Doctrines which suggested conflict were no longer desirable. Theories which diverted attention from the antagonism of social classes met a ready welcome.[59]

Similarly, Ronald L. Meek states that "the majority of economists were very much aware of the dangerous use to which a number of radical writers were putting Ricardian concepts."[60] Included among these radical writers were Thomas Hodgskin, Karl Marx and other so called Ricardian socialists. Maurice Dobb forms the same view in documenting the reactions of some of Ricardo's contemporaries toward the labour theory of value and its implications, in particular with regard to the definition of profit as the surplus value of labour extracted by the capitalist as a reward. Ricardian theory was roundly condemned as "mischievous and in fundamental error" and those who took up the approach after Ricardo's death were denounced as dangerous radicals who "declaim against capital as the poison of society, and the taking of interest on capital by its owners as an abuse, an injustice, a robbery of the class of labourers."[61] A clear underlying fear was that Ricardian economics would be used to justify political intervention in promoting the interests of the labourer (for example,

legislating higher wage rates, shorter work weeks, profit-sharing schemes or other social-economic benefits) to the economic detriment of the English capitalists. Worst still, the fear was that such ideas could be used to justify, on ethical-economic grounds, a social-political revolution of the sort that had gripped France and spread across the continent at various junctures in the nineteenth century.

Marginalism Becomes Mainstream

John Stuart Mill in his *Principles of Political Economy* (1848) attempted a summing-up of the various elucidations on value surrounding the debates of the 1820s and 1830s. He believed that he had produced the definitive work on the problem of value which was, in his view, a restatement of Ricardo's main ideas and an accommodation of these ideas within a cost-of-production approach and elements of a utility theory. As Mill stated in Book III, chapter one: "Happily, there is nothing in the laws of Value which remains for the present or any future to clear up; the theory of the subject is complete."[62] While attempting to defend Ricardo's theory, Mill's presentation of these "laws of Value" in his *Principles* is difficult to ascribe as Ricardian. As Maurice Dobb comments:

> He ended up, at any rate, with a Cost of Production Theory which was essentially the Adding-up-of-Components Theory of Smith, borrowing something from Senior and even Say, on the one hand, and trying to reconcile the results with some Ricardian propositions, on the other.[63]

In Joseph Schumpeter's view, Mill's efforts to rebuild Ricardian theory actually destroyed it. Schumpeter places Mill within the Smith-Marshall line of cost-of-production and supply and demand analysis.[64]

The next wave in economic thought, marginalism, came into prominence in the 1870s with the near simultaneous publication of treatises by W. Stanley Jevons in England (1871, *Theory of Political Economy*), Carl Menger in Austria (1871, *Grundsätze der Volkswirtschatftlehre*) and Léon Walras in France (1874, *Eléments d'economie politique pure*).[65] Marshall's *Principles of Economics* (1890), published some twenty years later, was widely acknowledged as a useful synthesis of the new doctrine and quickly became the main economic textbook of the English-speaking world. This dominance lasted until after the Second World War when emphasis shifted to Walrasian general equilibrium analysis combined with elements of Keynes' *General Theory* (1936). As Schumpeter points out:

> Nobody denies that, numerous difference in detail notwithstanding, Jevons, Menger, and Walras taught essentially the same doctrine. But Jevons' and Marshall's analytic structures do not, in essence, differ more than the scaffolding differs from the completed and furnished house, and note XXI in the Appendix to Marshall's *Principles* is conclusive proof of the fundamental sameness of his and Walras' models [of general equilibrium analysis].[66]

It is noteworthy that the notion of utility, and more specifically marginal utility, was not an all together new approach to value. As suggested in the previous chapter, various scholastics, natural law philosophers and physiocrats of the seventeenth and eighteenth centuries, and certainly Adam Smith, had advocated a primitive notion of utility. Even Ricardo acknowledged its importance as a prerequisite for exchange. Moreover, there were other nineteenth-century thinkers who developed a doctrine of utilitarianism and aspects of marginal utility analysis, including: Jeremy Bentham (1748-1832), Augustin Cournot (1801-1877) and Hermann Heinrick Gossen (1810-1858) among others. Bentham and Gossen are perhaps the better known of these thinkers. For example, Bentham is remembered mainly for his utilitarian theory of human motivation which combined the ethics of consequentialism

with a hedonistic psychology that asserted that people act only to enhance their personal pleasure or to diminish their pain. His hedonistic utilitarianism defined the correctness of an action as being that which promoted the happiness of all those affected by the act. He devised a notion of the degrees of intensity of pleasure and pain or a 'calculus of pleasure and pain' which corresponded with a primitive notion of marginal utility. The German economist, Gossen, also independently developed a concept of marginal utility and devised two laws of marginal analysis as early as 1854 in his treatise *Development of the Laws of Human Action and of the Consequent Principles of Human Commerce.*[67]

In contrast to the classical labour theory which based the foundation of value in the process of production, the marginal-utility approach placed value within the process of exchange itself. While classical theory's predominant concern was with the process of capital accumulation and income distribution, the new theory focussed its analysis on the allocation of resources among potentially, unlimited competing uses. For Smith, Ricardo and Marx, the causal influences and regulators of value were rooted in the process of production – that is, the notion of scarcity, the role of labour and other costs incurred through the productive process. In the new, marginalist orientation, value was rooted in the exchange process itself through a shift in emphasis towards demand and the satisfaction of the desires, wants and needs of consumers in final consumption. The new theory claimed that the value of a commodity, represented by its relative price, was determined in the minds of individuals through an evaluation of the utility (pleasure) and disutility (pain) associated with the buying or selling of a given commodity or set of commodities. Whereas classical theory emphasized the importance of the dynamics of social classes, the new theory, which modelled itself on

the new physics of its day, exhibited an atomistic bias and emphasized micro-analysis of market behaviour as a basis for economic generalization. The unit of analysis shifted to the rational individual agent (consumer, household and firm) and individual market. As Maurice Dobb points out, these shifts were made possible intellectually through the creation of the notion of 'marginal increments of utility' as derived from the application of differential calculus. Dobb further comments that: "It is this playing-down of cost and production in favour of the pull of demand and of utility in consumption that has caused the change to be described in terms of a shift to a Subjective Theory of Value."[68] This subjective theory of value gave expression to a vision of a capitalist economy that emphasized social harmony and equilibrium through the freedom of market exchange. From this point of view, exchange was always mutually advantageous to the individual agents involved and it was always a positive sum gain.

With the seemingly overnight dismissal of Ricardian economics and the shift from a primitive to a modern utility theory of value, the boundaries of economics as a field of study were transformed. The market, or the set of interconnected markets that make up the sphere of exchange relations, became the central focus and marginal utility analysis became the main analytic tool. Questions which were central to the classical system, such as class relations and conflicts, ownership patterns and other institutional structures, were relegated to the periphery as part of economic history and economic sociology. Former key concepts such as competition and surplus value were radically altered or dropped from use. For example, in the classical tradition competition referred to business behaviour or, more explicitly, the actions taken by firms to gain advantage and profit (business schools still look

at things this way).[69] The new marginalist theory associated the term with the structure of markets (number of firms in a market, market shares, barriers to entry) and devised the notions of perfectly and imperfectly competitive markets. The concept of economic surplus, which in classical economics was the source of the capitalist's profit generated by labour and capital through the productive process, was considered meaningless as each factor of production (land, labour, capital), in the long-run, supposedly returned what it created. That is, under conditions of free or perfect competition, it was assumed that labour tends to get what labour creates, the capitalists get what capital creates and the entrepreneurs get what the coordination function creates (developed by J.B. Clark as the *Law of Final Productivity*). These changes in vision and method of analysis signified a sharp and thoroughgoing break from the classics that in effect revolutionized the pure part of economics. As Joseph Schumpeter puts it:

> The controversies of [the] age testify strongly to the break that had occurred.... The replacement of the geocentric by the heliocentric system and the replacement of the 'classic' by the marginal utility system were performances of the same kind: they were both essentially simplifying and unifying reconstructions.[70]

The connection between utility theory and utilitarianism seems an obvious one, made all the more visible because of the fact that some of the most prominent exponents of the new marginalist approach were also known utilitarians (e.g. Bentham, Gossen, Jevons). Some have argued that this was a relation of association rather than one of logic. They maintain that utility as a method of analysis was separate from the utilitarian schema of ultimate values and moral imperatives, in particular from the idea of hedonism. For example, Schumpeter asserts:

> Actually it is not difficult to show that utility theory of value is entirely independent of any hedonist postulates or philosophies. For it does not state or imply anything about the nature of the wants or desires from which it starts.[71]

That is, utility theory is meant to explain the choices people make in the marketplace irrespective of their motives, although these choices are based on the consequences expected to occur. While utility does not depend on the egotistic hedonism of the Benthamites, it is intertwined with utilitarian consequentialism and an underlying belief that people are always considering the consequences of their choices in terms of maximizing their total utility. Moreover, it is implicit that this internal process of economic optimization is purely rational.

Utility theory is also closely linked to a doctrine of individualism whereby people are assumed to be independent, self-contained actors. Taken to its extreme, individualism, and the corollary of subjectivity, assume that all values, attitudes, hopes, wants and preferences originate from within individuals, and that no social group or institution affects individual choice unless it already corresponds to individual wants. The doctrine holds that all social life is explicable through the observation of individual behaviour, that society is simply an aggregate of individual agents and that, ethically, it is the interests and responsibilities of these individuals that are foremost. In concomitance, utility theory treats individual preferences as given and assumes that the preferences of one individual are independent of those of the next person. The only thing that affects an individual's utility is the amount of a given commodity that the person chooses to consume. This reinforces the importance of demand as a source of economic value and regulator of price at the expense of supply-side considerations. From the perspective of our analysis of value, art and the marketplace, this vision of things tends to focus attention on the final act of exchange and relegates the

importance of supply-side factors to the background. It reinforces an interpretation of the art market as 'rudderless' and of art prices as ungrounded from the logic of a capitalist market system. As Peter Lichtenstein points out, a further consequence of the individualistic foundations of utility theory is that "as a theory of consumer behavior, it is incomplete."[72] While it may be important to offer a simple, unifying explanation of the decisions of individuals in the marketplace, utility provides at best an incomplete picture unless we also explore the basis of people's tastes and preferences. Relying solely on the assumed subjective wants of individuals is not sufficient to understanding value and price. What is missing in so many discussions on value is an appreciation of how diverse commodities have become commensurable in the first place.[73] In part, this means asking what are the social conventions and norms that shape the changing definition, or identity, of diverse goods as exchangeable commodities and assets.

In the late eighteenth hundreds, the concepts of marginal and total utility provided a reformulated 'use value' that encompassed a new theory of value. Utility is essentially a metaphysical concept intended to explain, in a simple manner, the behaviour of individuals in the marketplace. However, it is commonly defined in terms of itself. As Joan Robinson and John Eatwell suggest, utility has become "the characteristic of commodities which makes individuals want to buy them, and individuals buy commodities to enjoy utility in consuming them."[74] Thus, utility, as the satisfaction of wants, is treated as a psychological fact that is both the cause of value and the end point of consumption. For its part, marginal utility is defined as the increment of utility expected from a small increase in the quantity of a good purchased. That is, as we acquire successive increases in the quantity of a sought-after

commodity, it is assumed that our desire to acquire one more unit of the commodity decreases steadily until it dissipates. Or, as Alfred Marshall put it in his *Principles*: "The Marginal Utility of a thing to anyone diminishes with every increase in the amount of it he already has."[75] This was what Marshall called the *Law of Satiable Wants*, what the Austrians called *Gesetz der Bedürfnissättigung* and still others called *Gossen's First Law*.[76]

The marginal utility theory further assumes that a rational individual disposes of her income on a range of commodities in such a way as to maximize her total utility. Initially, total utility was defined as a sum or integral ($u=u1(x1)+u2(x2)+ \ldots +un(xn)$ where $ui(xi)$ is the utility of some commodity (xi)) and, as with the marginal utility of a thing, it was expected to increase to the point of satiety with every increase in the quantity of a commodity had, but at a decreasing rate. That is, an individual allots her purchases so that she cannot acquire any further benefit from shifting a dollar from one commodity to another. She maximizes her total utility by equalizing the marginal utility of a dollar spent on each commodity as well as the utility from saving a dollar. Put another way, in order to maximize satisfaction from any good that is capable of fulfilling different wants (including labour and money), an individual (or household or firm) must allocate it to these different uses in such a way as to equalize its marginal utilities in all of them.[77] This is called *Gossen's Second Law*.

The two laws taken together essentially argued that the exchange value or price of a commodity was governed by its marginal utility. They were seen as providing a simplified explanation for the common observation that a sudden increase in the supply of a commodity generally leads to a fall in its price. Marginal utility was also seen as explaining Adam

Smith's water-diamond paradox. That is, given that water is plentiful, its marginal utility is low. Whereas the marginal utility of diamonds is kept high by demand for a scarce good. The new theory was viewed as achieving several other purposes as well: it extended the explanatory reach of value theory from the phenomena of prices to the wider realm of prices and quantities; and, it supposedly encompassed a broader range of price phenomena including the market prices of scarce commodities.[78] Interestingly, the old criticism that Ricardo's labour-quantity theory could not provide a determinant explanation of the value of irreproducible goods like rare art works was resurrected by Jevons and others, and insinuated as grounds for the superiority of the new school. And yet, Jevons himself would ultimately acknowledge that no consideration of utility could ever apply to such rare commodities.[79]

An underlying assumption of the early accounts of the new theory was that the utility an individual derived from a commodity was independent of her consumption of other commodities. By the turn-of-the-century this assumption was dropped as it was considered unduly restrictive. The utility gained from consuming a commodity was, subsequently, treated as a function of all commodities consumed. This change allowed for the possibility that an individual's consumption of one commodity might affect her satisfaction in consuming another. Consequently, the proposition that an individual's total utility was the sum of the utility derived by each commodity consumed was dropped. Instead, total utility became a function of total consumption (where $u=u(x1, x2, \ldots xn)$).

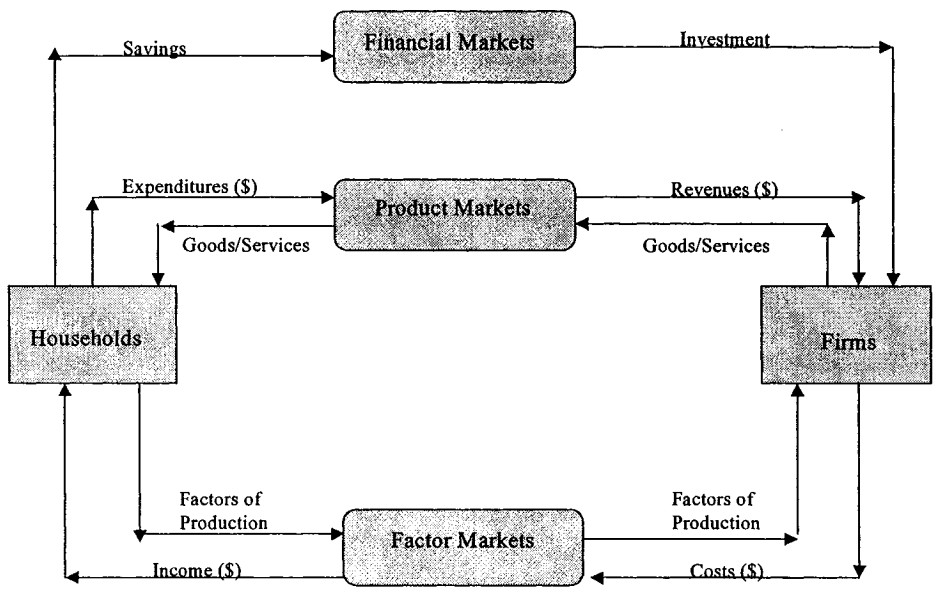
By the turn of the twentieth century, the notions of marginal and total utility, initially formulated in reference to demand and the satisfaction of consumer wants, were being

applied to other types of economic problems. Marginal utility was extended to cover the process of production and income distribution. Essentially, theorists assumed that the means of production also yield consumer satisfaction in an indirect way as incomplete consumable goods – that is, as inputs to production which, when combined in the form of final commodities, satisfy consumer wants. In this way, it was argued that factors of production acquire their exchange value from the same principle that governed final consumption. Costs of production and the allocation of productive resources were encompassed in the same unifying theory. Also, all economic actors (divided into categories of households and firms) became both buyers and sellers in the market for consumable goods and in the market for factors of production. In this schema, since costs to firms could be equated as incomes to households (e.g., the wages of labour), then marginal utility automatically applied to the phenomena of income distribution. That is, households were sellers of their labour in the factor market and the wage rate was, thereby, subject to the same forces of supply and demand and the principle of marginal utility. Income formation and distribution were demoted as a corollary of exchange. Finally, a share of household income remained unspent as savings and a share of total production consisted of investment goods rather than consumer goods. It was assumed that these investment goods were financed by household savings.

This circular flow model of a capitalist economy (see figure 1) was, subsequently, labelled the neoclassical paradigm in that it came after the classical approach and not because it shared any theoretical resemblance. Presented here in a simplified manner and leaving out many of the difference between the various originators and contributors (and using

contemporary expression), it shows how a single principle governing value was used to unify the epistemology of 'pure' economics by the early nineteenth hundreds.

Figure 1: Neoclassical Circular Flow Economic Model



Source: Peter L. Lichtenstein, *An Introduction to Post-Keynesian and Marxian Theories of Value and Price* (Figure 2.1), 13.

The use of equilibrium analysis was an important corollary to the principle of marginal utility and, given its continuing importance to mainstream economics, warrants further discussion. As Joseph Schumpeter puts it, "marginal utility was the ladder by which Walras climbed to the level of his general-equilibrium system."[80] To clarify the relationship between the two, he adds:

> We must see in the Jevons-Menger utility theory an embryonic theory of general equilibrium or, at all events, a particular form of the unifying principle that is at the bottom of any general-equilibrium system. Though they did not make it fully articulate, mainly because they did not understand the meaning of a set of simultaneous equations ... they saw in marginal utility the essence of their innovation instead of seeing in it a heuristically useful methodological device.[81]

As Lionel Robbins points out, Walras is considered most important for "having propounded a complete system of more or less statical economics" in which general equilibrium analysis played a pivotal role.[82] It was a complete system in that Walras extended his statical analysis to production (ultimately incorporating a concept of marginal productivity) and expounded on the problem of capitalization as well as the role of money.[83] For Léon Walras, the central concern of equilibrium analysis in a stationary state was "the free play of competition in the market allocating the given 'factors' between the production of different commodities under the influence of consumer demand."[84] From this vantage point, prices were determined by the scarcity of resources relative to demand, but demand was still the key determinant. Equilibrium referred to a certain price and quantity combination wherein supply equalled demand in a given product or factor market. More specifically, Walrasian or general equilibrium analysis attempts to examine the interconnections between all factor and product markets. This approach tries to demonstrate in a formal mathematical manner how conditions in one market affect outcomes in all other markets. The model is constructed on sets of equations based on given information at a given point in time including: quantities of factors of production; the technologies or methods used in production (i.e., production functions); consumer preferences for final commodities (i.e., indifference curves); the distribution of ownership of factor resources. These equations produce a set of equilibrium prices which are considered a measure of relative scarcity. It is postulated that if all exchange took place at

these equilibrium prices then supply would equal demand and all markets would clear. In effect, the resulting market clearing prices would ensure that all that is produced is sold. The underlying postulate that demand will equal supply is often referred to as Say's Law in reverence to its nineteenth-century proponent J.B. Say.

Alfred Marshall developed another approach, subsequently called partial equilibrium analysis, which consists of isolating a single market in order to examine the forces that equilibrate supply and demand. Marshallian equilibrium analysis makes the assumption that conditions in the single market do not appreciably influence the rest of the economy (*ceteris-paribus* clause).[85] Marshall's objective was to isolate short-run changes in supply and demand as a way of tracing out particular price relations between sets of commodities. He was concerned with developing a mode of analysis that acknowledged the inherent dynamism of the economy. For Marshall, equilibrium, in particular partial equilibrium analysis, was dynamic:

> It is concerned throughout with the forces that cause movement: and its key-note is that of dynamics, rather than statics. The forces to be dealt with are however so numerous, that it is best to take a few at a time; and to work out a number of partial solutions as auxiliaries to our main study. Thus we begin by isolating the primary relations of supply, demand and price in regard to a particular commodity.[86]

Marshall seemed to consider general equilibrium analysis as too abstract, although he had developed a model of general equilibrium which was relegated to an appendix to the main text of his *Principles*.

Marshall was also concerned that the new marginal economics over emphasized the demand side of the equilibrium equation and undervalued the importance of cost-of-production. As Marshall comments:

> We might as reasonably dispute whether it is the upper or lower blade of a pair of scissors that cuts a piece of paper, as whether value is governed by utility or cost of production. It is true that when one blade is held still, and the cutting is effected by moving the other, we may say with careless brevity that the cutting is done by the second; but the statement is strictly accurate, and is to be excused only so long as it claims to be merely a popular and not a strictly scientific account of what happens.[87]

He goes on to explain that, as a general rule, the shorter the period of time under consideration, the greater the amount of attention should be given to the influence of demand on value; and the longer the period, the more important will be the influence of cost of production.[88] Arguably, this was part of Marshall's attempt to demonstrate the continuity of economic thought stretching back to the Smithian adding-up approach. It was also part of his attempt to accommodate the concept of marginal utility with a workable price theory and to reconcile theory with the phenomenal world. However, as Joseph Schumpeter contends, and as discussed above, utility theory aimed at showing that both blades of the scissors were composed of the same material – that is, both demand (output) and supply (input) were explicable in terms of utility. Marshall rightly surmised that Jevons, Walras and Menger had placed Smithian cost-of-production on the back burner, adapting their essentially consumption oriented analysis, centred in the process of exchange, to encompass the process of production. The supply-side of utility, particularly under Walrasian equilibrium, is part of a wholly different schema of economic analysis than that of Adam Smith's adding-up-of-costs approach.

As with the classical theory of labour and its transformation problem, the new utility theory was also open to criticism on account of its assumption on measurability. As Joseph Schumpeter interpreted things:

> In the beginning, utility, both total and marginal, was considered a psychic reality, a feeling that was evident from introspection, independent from any external observation ... and a *directly measurable* quantity.[89]

The early cardinal approach assumed that the relative utility of two commodities could be determined by first establishing which was the preferred commodity and by then measuring the difference between the amounts of *utils* (a unit of satisfaction) gained through the consumption of the commodities. The problem was that a *util* was itself a psychological substance. Even Alfred Marshall espoused the measurability of utility, but he carefully hedged this by arguing that utility or disutility cannot be measured directly. These can only be measured indirectly through their observable effects such as by the amount of money a person is willing to give up.[90]

It is only with Vilfredo Pareto (1848-1923) that the notion of direct measurability is completely abandoned. Pareto established what has come to be known as the ordinal approach which assumes that it is possible to provide a ranking of an individual's preferences for commodities and combinations of commodities. All that this approach can claim is that commodity y is ranked higher than commodity x. It does not try to assess quantity in any way. Ordinal utility was a scale of preference. Refined by Allen and Hicks and others in the early decades of twentieth century, the ordinal approach is today called preference theory, or choice theory, and is dependent on the advanced mathematics of indifference curves.[91] In effect, utility was accepted as something real in the minds of people, although not something that could be precisely measured. It was not a directly operational concept and was replaced by 'revealed preferences' in order to find some empirical basis in consumer behaviour. However, as Joan Robinson and John Eatwell point out: "This concept [of revealed preferences] expresses no more than the notion that consumers can be observed to buy what they can be observed to buy."[92] In other words, it can tell us about past-purchasing patterns

which may, in turn, be projected into the future, but this concept is hard pressed to tell us much about the underlying basis of these choices or how they may change through time or from place to place. Once again, from the perspective of a modern art market, the notion of revealed preference provides limited insight in the basis of changing tastes and the emergence of new art movements as it is essentially backward looking.

Criticism of the marginal paradigm has come from a number of quarters including economic sociology and Marxian and classical economic traditions. Several fundamental concerns with the orthodoxy of marginalism have already been mentioned and the general points are summed-up by Peter Lichtenstein as follows:

> The subservience of production to exchange, the failure to focus on the production of resources and on long-run capital accumulation, and the denial of the relevance of social class all threaten to obscure from our view some of the most essential features of a capitalist system.... they threaten to divert our attention away from the pathology of capitalism.[93]

Marginalism, or neoclassical economics, reduces everything to exchange including production. Producers are viewed as buyers and sellers in factor and product markets, thereby, subordinating production to consumption through exchange. For critics, the concern is that "without a concrete theory of production ... it is impossible to tell if the economic system is *viable*" – that is, whether the theory (as is) can demonstrate that the economic system is capable of replacing itself.[94] Since general equilibrium analysis assumes that endowments of resources are given, it is difficult to say anything systematic about the origin of these resources or how they are produced. Moreover, capital accumulation is treated as an extension of exchange. With consumption viewed as the basic objective of the economy, capital accumulation becomes an incidental feature of individual allocation decisions instead of the driving force of the whole system. There is also a general lack of importance attached

to the idea of social class or the influence of society on the individuals that make it up. Among other things, this means that institutional considerations such as ownership patterns or social and cultural norms and conventions are not seen as having any influence on the outcome of market exchange and are, indeed, treated as peripheral to economic analysis.[95] Thus, the theory does not seem to leave itself sufficiently open to address questions regarding the origin of price structures, the social basis of consumer preferences or, more broadly, the social-historical roots of value. In the case of something like rare art works, it would seem that the orthodoxy of mainstream neoclassical economics may provide limited insights into the evolution of its marketplace.

More specific criticism is aimed at the concept of marginal utility itself. The basic notion of marginal utility is that the more a person consumes of a given commodity the less would be the additional satisfaction derived from the consumption of each successive unit of the commodity. Thus, it is claimed that consumption is subject to diminishing returns. However, in the real world for many people consumption seems not to be subject to diminishing marginal returns but rather to increasing returns. In short, the more one has of a given commodity, or set of commodities, the more one wants.

Increasing returns is an underlying premise of Thorstein Veblen's sardonic depiction of conspicuous consumption explored in his work, *The Theory of the Leisure Class,* first published in 1899. Veblen challenged the underlying notion of consumers as purely rational actors out to maximize their marginal utility and instead emphasized that, as members of a society, people are influenced by the social structures, conventions and norms that are part of a stratified-social system. While it may seem logical and rational that a person will want

less of something the more she consumes of it, it is at least equally plausible for a person to want more of a thing once she experiences it. P. Mirowski characterizes Veblen's approach as driving "a wedge between utility and usefulness, wastes and inefficiency, science and pecuniary calculation" as a way of turning the "fascination with social Darwinism on its head, claiming that the major function of the affluent class was to develop forms of cultural waste that would demonstrate its affluence."[96] The underlying social value was an instinct of emulation that prompted the rest of society to imitate this wastefulness. As Veblen characterized things:

> In any community where goods are held in severalty it is necessary, in order to his own peace of mind, that an individual should possess as large a portion of goods as others with whom he is accustomed to class himself; and it is extremely gratifying to possess something more than others. But as fast as a person makes new acquisitions, and becomes accustomed to the resulting new standard of wealth, the new standard forthwith ceases to afford appreciably greater satisfaction than the earlier standard did. The tendency in any case is constantly to make the present pecuniary standard the point of departure for a fresh increase of wealth; and this in turn gives rise to a new standard of sufficiency and a new pecuniary classification of one's self as compared with one's neighbours.[97]

As John Kenneth Galbraith interprets Veblen's characterization: "The ostentation, waste, idleness and immorality of the rich were all purposeful: they were the advertisements of success in the pecuniary culture."[98] It is arguable, that this pecuniary culture and the 'need for advertisement of the existence and extent of wealth' has, if anything, become more pervasive.[99]

This notion of increasing returns to scale, or, as Veblen distinguished, the human activity of conspicuous consumption arising from the social motivation of pecuniary emulation, is certainly at play in the activity of collecting, the social phenomenon of 'keeping up with the Jones', the investment activities of today's 'paper entrepreneurs' and day traders, and the simple satisfaction some people seem to gain from possessing multiple automobiles

or other non-essential goods and services. Indeed, for Veblen the possession of all sorts of property through the act of conspicuous consumption is intertwined with an individual's identity as possession becomes a source of popular esteem that is part of the race for "pecuniary reputability".[100] According to this way of looking at things, nothing is purchased solely for its ostensible efficacy in the use intended. Every purchase is a statement about the individual engaged in the transaction, meant to signify that person's place in the society's scheme of valuing and values.[101] In general, in a capitalist society, people and institutions have a propensity to consume and to accumulate things, including 'wealth-as-capital', and these propensities are part of the social value structure of the system itself. The view that 'more is better' is a prevalently held norm cutting across contemporary capitalist societies.

Similarly, the extension of the assumption of diminishing marginal returns to production has been called into question. The basic model holds that the greater the amount of inputs used in production the greater the output, but the additional amount produced by any given increase in inputs diminishes as the scale of production increases. It was further assumed that firms would produce additional units of output up to the point where the marginal revenue earned equalled the marginal cost of its production. By logical extension this model limits the size of firms as it assumes that there is little incentive to invest in large production processes given that additional inputs only produce fewer and fewer units of output. As Paul Ormerod points out in his work *The Death of Economics* (1994), the problem with the model is that there is strong evidence that, as capitalism has advanced, there has been a tendency for companies to grow ever larger. As is suggested in Alfred Chandler's impressive undertaking, *Scale and Scope: The Dynamics of Industrial Capitalism* (1990),

instead of decreasing marginal returns to scale firms, by the early twentieth century, were discovering the economic advantages of being big.[102] That is, companies were learning to exploit the unprecedented opportunities of increasing returns to scale in production and distribution that allowed them to produce more and more output with increasing inputs to service expanding markets, first domestically and then, for the most ambitious, internationally. Again as Omerod points out:

> Companies found, contrary to the precepts of marginal economics, of which they were blissfully ignorant, that the bigger the scale of operations, the more could be produced, and the more profit could be made from the additional marginal unit of production.[103]

At minimum, industrial production for mass markets (e.g., the automobile, consumer electronics, pharmaceuticals) does not uniformly support the precept of decreasing marginal returns. This seems to be especially the case for mass-produced goods that require a very large front-end investment in research and development, relatively lower productions costs and which, then, rely on the protection intellectual property law for their return on investment.

In summary, marginalist economics did represent a major point of consensus in pure theory. In the minds of many, the concept of marginal utility and equilibrium analysis were not only capable of putting to rest once and for all Adam Smith's paradox of value, they could be used to explain a wide range of other economic problems once various sets of assumptions were stipulated. This new economics also brought a new level of analytical rigour to the discipline through the adoption of the advanced mathematics of physics. However, it is arguable that in its effort to unify and simplify, the marginalists became overly occupied with perfecting the symmetry of their theory and models as the real world continued

to change around them. For example, the principle of diminishing marginal utility was assumed to be generally applicable to individual consumers and businesses alike even though in the real world such uniformity of behaviour was not evident. Its treatment of investment as subordinate to consumption, and the relegation of technology as an exogenous, given factor in production, were dramatic simplifications that seemed out of touch with the real economy. It is also arguable that neoclassical economics threw out too much of what came before, dramatically altering the scope of its own study. In particular, it discarded the combination of analytics and description that so distinguished *The Wealth of Nations*, as well as the emphasis that Smith and Ricardo placed on situating economic facts within a social reality made up of the interrelation of labour, corporations, governments, entrepreneurs, investors and consumers, as well as various marketplace laws and conventions. While, today, mainstream economics holds fasts to the unifying precepts of marginal utility, general equilibrium and revealed preferences, it has also demonstrated an openness to new ideas (e.g., the accommodation of aggregate demand, a growing acceptance of endogenous growth theories) provided they can be made to fit, in some greater or lesser manner, within the general framework of the neoclassical orthodoxy. A key question for economics, now and into the future, is whether its essentially nineteenth-century theoretical foundations can be continually bent for the purpose of a part-way accommodation of new thinking.

Uncertainty and Propensity to Consume

It was Marshallian equilibrium analysis that prevailed in the early nineteen hundreds. Indeed, it was not until the Great Depression and the apparent breakdown of the private

enterprise system in the 1930s, that alternative economic viewpoints started to seriously challenge this approach.[104] During this period, a new wave of economic thought emerged based on the writings of John Maynard Keynes in Britain, Gunnar Myrdal in Sweden and Michal Kalecki in Poland.[105] This new wave was, subsequently, coined the Keynesian revolution, named after its most prominent proponent. Some aspects of this new thinking were later adopted by mainstream economics which, following the Second World War and a period of strong stable growth, began to reassert its emphasis on the *laissez-faire* doctrine while shifting its emphasis from Marshallian partial equilibrium to Walrasian general equilibrium analysis.[106] Others aspects of Keynesian thinking were dropped outright as lying outside the proper domain of economics, or as ideas that could not be operationalized through mathematical modelling. It continues to be a point of some controversy as to what degree the new thinking disrupted economic orthodoxy. According to Maurice Dobb, the new ideas embodied in Keynesianism "did nothing to challenge or disturb the existing (post-Jevons) theory of value and distribution, and may be said to have moved within its general framework."[107] As Robert Skidelsky, a leading biographer of Keynes, comments: "Economics was, still largely is, built up from the logic of choice under conditions of scarcity. Keynes's vision ... has to do with the logic of choice, not under scarcity but under uncertainty."[108] In contrast, for Joan Robinson, a contemporary of Keynes, the economic consensus that emerged from the new thinking could only be called "bastard Keynesianism" as it left out the most innovative aspects, in particular Keynes's notion of uncertainty which permeated his vision and theory.[109] Robert Heilbroner and William Milberg emphasize that the subsequent watering down of Keynes's ideas led to a new Schumpeterian classical

situation within economics which remained relatively unchallenged until the 1970s:

> By the early post-World War years a true classical situation had appeared. Keynes's "general" theory had become accepted in a way that must have more than fulfilled its author's hopes, although at the expense of a considerable weakening of its originality and power. Much as the Millian model had earlier been modified to rid itself of the wage fund, the faint remainders of a labor theory of value, and a vague endorsement of a postcapitalist social order; or as the worlds of Jevons, Menger, and Walras were broadened to include Marshallian quasi-rents and other institutional considerations, so the disruptive, uncertainty-centered model of the *General Theory* was converted into a pastiche of ideas, not so much blended as permitted to co-exist, with their mutual contradictions and inconsistencies allowed to go unresolved.[110]

The intrusion of Keynes, Mydral and Kalecki on economic orthodoxy was amalgamated into neoclassical economics by various economists, perhaps the most important of which was John R. Hicks whose two-market equilibrium model and now famous IS/LM diagram presented Keynes' theory as analogous to the Marshallian universe that preceded it.[111] As with previous 'classical situations', the new point of consensus was summed up in a landmark work – that is, in Paul Samuelson's *Economics* (1948). In Samuelson's work, the marginalism's preoccupation with the analysis of resource allocation under conditions of scarcity, its emphasis on the atomistic actor, the principle of marginal utility and the general equilibrium model are retained as part of microeconomics; whereas the new thinking's analysis of aggregate demand, as modified by Hicks and folded into a model of general equilibrium, became a central part of the new study of macroeconomics.

It is accepted, in most circles, that the 1930s presented a set of confounding economic conditions – among the most problematic of which was massive unemployment – that could not be explained by marginal utility and for which traditional policy prescriptions did nothing to alleviate. From a Keynesian perspective, the fundamental fallacy was a belief that since pure theory held that a market economy always tends to equilibrium, the best course of action was to minimize state intervention (particularly in the area of wage or welfare support and

public works) and to let the market find a new lower level of equilibrium on its own. To recount, pure theory assumed that when the supply of a commodity, including labour, exceeded demand, its price would fall and this drop in price would result in a new level of equilibrium. Based on this understanding it was assumed that the unemployment problem could be resolved by a drop in the real wage rate and, consequently, the whole private enterprise system would be re-calibrated, economic growth would resume and full employment regained in due course. But as the events of the day all to painfully demonstrated, a drop in the wage rate does not automatically stimulate increased production or kick-start growth. Rather as Keynes and Kalecki argued, given that the money-wage rate is a main component of the costs of goods and services, a change in the wages would result in a corresponding change in the level of prices. That is, by itself a drop in the wage rate would only cause prices to fall more or less in proportion with the decrease in costs. As Michal Kalecki wrote:

> Let us assume that wages have been in fact generally reduced .... Now the entrepreneurs owing to the 'improved' price-wage relation utilize their equipment to capacity and in consequence unemployment vanishes. Has depression been thus overcome? By no means, as the goods produced have still to be sold. Now, production has risen considerably and as a result an increase in the price-wage relation the part of production equivalent to profits (including depreciation) of the capitalists (entrepreneurs and rentiers) has grown even more. A precondition for an equilibrium at this new higher level is that this part of production which is not consumed by workers ... should be acquired by capitalists for their increased profits ... the capitalists must spend immediately all their additional profits on consumption or investment.... It is true that increased profitability stimulates investment but this stimulus will not work right away since the entrepreneurs will temporise until they are convinced that the higher profitability is going to last. Therefore the immediate effect of increased profits will be an accumulation of money reserves in the hands of entrepreneurs and in the banks.... the goods which are the equivalent of the increased profits will remain unsold. The accumulating stocks will sound the alarm for a new price reduction of goods which do not find an outlet. *On balance only a price reduction will have occurred.... What the entrepreneurs gain on wage reductions is soon dissipated through price declines. All this could be noticed in all countries during the world depression in the period 1931-2, when the wave of wage reductions brought about a rapid fall in prices rather than an increase in production [italics added].*[112]

Thus, policy prescriptions which flowed from the then marginalist orthodoxy (in particular, Say's Law) ignored a basic economic precept learned at the knee of Marshall – that all prices are relative.

The proposed remedy of orthodox economics was wrong because its value theory provided an overly simplified and incomplete picture of the structure and movement of prices, and because it offered too purified an analysis of the real world behaviour of capitalist entrepreneurs. Indeed, as Keynes argues in his major work *The General Theory of Employment, Interest and Money*, the very high levels of unemployment was a major problem but this was a dire consequence of a deficiency of effective demand. Insufficient effective demand was an economic *malaise* that under the existing orthodoxy could not exist. As Keynes explained in the *General Theory*:

> The propensity to consume and the rate of new investment determine between them the volume of employment, and the volume of employment is uniquely related to a given level of real wages – not the other way round. If the propensity to consume and the rate of new investment result in a deficient effective demand, the actual level of employment will fall short of the supply of labour potentially available at the existing real wage.... the mere existence of an insufficiency of effective demand may, and often will, bring the increase of employment to a standstill ... [and it] will inhibit the process of production.[113]

The thought that people could be unemployed due to a deficiency of effective demand rather than too high a money-wage rate was, at the time, revolutionary. In effect, Keynes' *General Theory* turned orthodox theory on its head by asking a new question: what determines the *aggregate* output and income of an economy? As Robert Skidelsky remarks, the reason for this question was a keen concern with why "the 'given quantities of resources' whose allocation ... it was the object of orthodox value and distribution theory to explain seemed to be ... well below the capacity of society to produce resources."[114] Keynes's principle of effective demand was the cornerstone of a theory that aimed to show how consumption and

investment can fall short of the capacity to produce, leading to unemployment. In other words, in the real world aggregate demand does not necessarily equal supply over time. This challenged a fundament of orthodox theory (i.e., Say's Law), that claimed in the long-run demand will equal supply especially under conditions of perfect competition and, therefore, economic malfunctions automatically self-correct. Keynes wanted his theory to be a useful tool for public-policy formation, and the principle of effective demand was part of a vision that shifted emphasis back to productive investment and that left room for a stronger role for government in encouraging spending as a means of stimulating business activity.

As Robert Heilbroner and William Milberg point out, it is this new attention given to the role of aggregate demand that marks the real break between the new wave in economic thought and Marshallian marginal analysis. In effect, Marshallian emphasis on maximizing resource allocation and price formation within a given industry is displaced by "the previously nonexistent task of determining the level of aggregate demand."[115] The importance of 'natural' and nominal price as a requisite of economic order is relegated to the background in the *General Theory*, however important clarification on price formation is added from another source. Compatible with Keynes's general vision of things, Michal Kalecki's development of the concept of a mark-up over prime cost related to the 'degree of monopoly' provided a significant theoretical update on the process of price formation. Kalecki's theory of costs and prices was essentially an update of a Smithian adding-up approach. Similar to Keynes, aspects of Kalecki's theory fundamental challenged key assumptions of the economic orthodoxy such as the postulate that a cut in the wage rate

reduces unemployment. Similar to Ricardo, utility was not the source of value or sole regulator of price, but rather an important prerequisite for exchange.

The first thing that Kalecki did was to separate short-term price changes into two broad categories: "Those determined mainly by changes in cost of production" versus "changes in demand."[116] This approach is reminiscent of David Ricardo, in that the former grouping generally applies to changes in the prices of manufactured or finished goods whereas the latter applies to the price changes of raw materials or natural commodities. The prices of finished goods are, in turn, affected by any 'demand-determined' changes in natural commodities as part of prime costs. Kalecki further explained that the two different modes of price formation arise out of different conditions of supply. The production of finished goods tends to be elastic due to excessive productive capacity which is a normal condition in modern economies. In general, this means that an increase in demand is met through an increase in production and, as a consequent, prices remain relatively stable. Price changes that do occur are due mainly to changes in the costs of production or prime costs. In contrast, the supply of natural commodities tends to be inelastic over the short-term which means that an increase in demand causes a reduction in physical stock and an increase in prices (of course, a cartel or tacit agreement among producers can limit supply in order to increase prices even when demand is constant). As Kalecki pointed out, natural commodities tend to be standardized and subject to quotations at commodity exchanges. Often an initial rise (fall) in demand that triggers an increase (decrease) in prices is also accompanied by 'secondary speculative demand' which may enhance the upward (downward) price movement.[117] This speculative demand is part of the psychology of the market which under certain conditions

(e.g., the end of a business cycle, a boom-bust economy, political uncertainty) can dramatically affect price (e.g., art prices in the late 1980s; oil prices in 2004).

Kalecki's main innovation lay in his treatment of 'cost-determined' prices or, more specifically, the elements of these prices and the behaviour of firms in setting prices within the context of the operation of markets for specific commodities. That is, a firm sets prices for its commodities while taking into consideration its average prime costs (e.g., cost of materials, wages) and the prices that any other firm charges for similar commodities or products that are considered substitutes by buyers. The firm must ensure that the price it sets is not too high in relation to the prices of other firms or sales will drop; and, that the price is not too low in relation to its average prime cost or profit margins will decline.[118] The price set by the firm also includes a mark-up, or gross margin, that takes into account fixed costs (e.g., overhead expenses, amortization of the capital investment) and must yield a net profit to permit further expansion. For Kalecki, the 'degree of monopoly' within a market permits a particular level of the ratio of gross margins to the value of output. The term monopoly ordinarily refers to a single seller who controls the entire supply of a particular commodity. Here it is defined as the opposite of competition in prices. Here, monopoly is a situation of imperfect competition which tends to prevail to varying degrees in most markets. As Joan Robinson and John Eatwell describe:

> Firms serving the same market differ in efficiency, there may be a wide spread of prime costs for a commodity sold at more or less the same price. High-cost producers have to accept lower gross margins than low-cost producers. The low-cost producers are free to choose the price policy that suits them, and high-cost producers have to accept it or go out of business. A strong firm is often acknowledged as price leader for the group. The level of margins for the group is then governed by the judgement of the price leader as to the degree of monopoly in that market.[119]

As Kalecki further emphasized, there are several major factors that underline changes in the 'degree of monopoly'. "First and foremost" is "the process of concentration" within an industry "leading to the formation of giant corporations."[120] As Kalecki put it:

> Such a firm knows that its prices p influences appreciably the *average price* $\underline{p}$ and that, moreover, other firms will be pushed in the same direction because their price formation depends on the *average price*.... The firm can fix its price at a level higher than would otherwise be the case [italics added].[121]

The other major influence is the development of sales promotion through advertising, selling agents, brand names, credit to buyers, other services such as deliveries, convenience of location or access, the apparent usefulness of the commodities and so on. These practices can cause a rise in the 'degree of monopoly'. For example, buyers may be willing to pay a higher price for a particular brand name as an accepted standard of quality or credibility, as a matter of style, or as the lure of the latest fashion. Kalecki also considered two other factors: (1) if overhead costs should rise considerably in relation to prime costs there would be a "squeeze on profits" unless there was a tacit agreement to increase prices in proportion to prime costs (e.g., the introduction of techniques which increase capital intensity can increase the degree of monopoly); and, (2) the existence of powerful trade unions may tend to reduce profit margins as a consequence of bargaining increased wage settlements in proportion to rising profits (that is, the degree of monopoly may be kept down by this activity).[122]

Kalecki's theory provides a more robust understanding of the formation and movement of prices as well as the distribution of income between workers (i.e., wages as a prime costs) and capitalists (i.e., net profit as part of gross margin), and across industries (i.e., relative shift of income to industries dominated by large corporations).[123] In essence, price formation is placed back in the process of production within a framework of supply and

demand, but where the machinations of supply and demand are necessary but not sufficient for our understanding of actual prices. Clearly more is going on than utility and equilibrium analysis allow for and it is impressed upon us that theory must try harder to reflect changing social-economic realities.

Kalecki reintroduces the notion that institutional considerations affect the competitiveness of businesses and the prices of goods and services. Based on Kalecki's approach, examples of such factors include: the concentration of firms within a particular industry; the influence of the 'ad man' and brand name marketing on consumer preferences; the strength of labour unions; established profit margins among groups of firms based on convention; the rate of new investment in capital goods and techniques among price leaders. This is very different from the demand-driven analysis of marginal utility. Based on Kalecki's theory, it is only at the tail end of an economic boom that demand by itself may exert upward pressure on the actual prices of finished goods because the economy is operating at full productive capacity – this is, one reason behind the emergence of inflationary pressures. However, even at near full capacity, entrepreneurs, propelled by business confidence with sufficient access to capital, may invest in new technologies that increase efficiencies and expand productive capacity, thereby, meeting demand at relatively constant prices.[124] In this approach to price formation, the basic notion of utility, as the satisfaction of wants, is treated as a prerequisite for market exchange much as Smith had hinted and Ricardo argued. Nothing is said about an underlying or unifying principle or structure of value. Rather, there is a tacit acknowledgement that prices, both in the short and long-run, are socially constructed and that people's preferences for what they buy, or invest

in, are conditioned by institutional considerations, social norms and conventions some of which are perpetuated by business practices (e.g., advertising).

The similarities between Kalecki and Ricardo on price determination are striking. In Kalecki's schema, the actual price of irreproducible goods such as rare art works is fundamentally determined by their scarcity and uniqueness within the context of the extent of the market for these goods – that is, the aggregate income and wealth of the society, the number of potential buyers and their ability to pay, prevailing taste, and so on. In the short-run, prices are set at a given time much like in other markets, through a consideration of the costs of bringing the product to market, an assessment of average price within a particular niche (i.e., Italian Old Masters, French Impressionist), and a consideration of the 'degree of monopoly' a particular painting may command as a unique work of art. Unlike most finished goods, supply is inelastic, meaning that demand may play a formative role in establishing the final sales price, particularly at the end of a business cycle. Also, because of this inelasticity, a rise in the average prices of a particular niche can lead to a secondary waves of speculative demand as more buyers enter the market spurred, in part, by the prospect of future capital gains. Like Ricardo's, Kalecki's price theory cannot tell us anything about the long-run or 'natural' price of these commodities, but it is capable of offering a perspective on why an upward price trend may persist over the long-term.

Kalecki's price theory was part of an alternative vision on the structure of the economy and how it worked.[125] As already mentioned, this new view, as most comprehensively put forward by John Maynard Keynes, asked a different question of economics than did marginalism: what determines "output and employment as a whole" and

how is it that "given quantities of resources" are allocated between different uses.[126] The answer put forward by Keynes was that the total output of an economy was the result of two streams of demand: consumption and investment. This conceptual shift entailed several consequences of considerable note. First, as Robert Skidelsky writes, Keynes "transvaluated values, so that thriftiness becomes (under the most usual circumstances) a pathology, not a sign of health, and virtue brings catastrophe on the societies which practice it."[127] That is, the nineteenth-century virtue of frugality and the curtailment of current consumption in order to save for the future, could have the effect of limiting economic growth in the present, while not offering any guarantee of increased consumption in the future. Savings are still necessary to increase productive capacity, but they do not determine investment. Instead, it is the level of aggregate income that affects consumption demand and investment demand; and, contrary to popular belief, it is the decision to invest that determines savings. Through this logic the virtues of consumption and investment, in particular under conditions of under-utilization of plants and labour, are championed. It is better for the economy today, and in the future, if people spend and invest now rather than save large portions of current resources for some possible expenditure in the future. This insight is arrived at through a recognition of the central importance of sustained growth and capital accumulation for the health of the overall system. Thus, in a twist on Veblen, conspicuous consumption becomes an overriding virtue of twentieth-century economic life.

Second, Keynes' shift in emphasis from the micro-maximization of utilities to propensities to consume and inducements to invest, signified a change in the understanding of motivation from that of the atomistic rational actor to the interrelatedness of group-centred

patterns of behaviour. This change in the conception of behaviour among firms is also reflected in Kalecki's price theory. As Robert Heilbroner and William Milberg characterize things:

> A functional underpinning for economic behavior gives way to a series of ad hoc generalizations for which no such scientific basis necessarily exists. One gets a sense of this when we compare Alfred Marshall's archetypical decision-maker ... balancing his dwindling marginal utility against his rising marginal disutility – with Maynard Keynes's consumer determining his/her savings by reference to the motives of "Precaution, Foresight, Calculation, Improvement, Shortsightedness, Generosity, Calculation, Ostentation, and Extravagance".[128]

As Heilbroner and Milberg further emphasize, the fundamental point is that it is the "extent of the market" for products that "becomes the driving force" and this "aggregate demand is less amenable to exact theoretical representation than (idealized) individual demand."[129] This implies that it is important to view the network of exchanges within a marketplace as part of an underlying structure of value. In Keynes' vision of the world there is room for a Veblen-type of analysis, as considerations of convention and norm-driven behaviour as well as the influence of rising incomes are allowed. The functionalist undertones (i.e., stimulus-response) of the marginalists' vision are replaced by an appreciation that economic behaviour is part of a changeable social reality that is temporally and spatially contingent.

Third, Keynes introduced the notion of uncertainty which diminishes the preeminence of *homo economicus* as a rational calculator of utility and disutility. The basic premise is that there is uncertainty in economic behaviour just as there is in every other aspect of social activity. People take decisions with incomplete information and in ignorance of the future all the time. As Keynes wrote on the influence of uncertainty on the investment decision:

> The outstanding fact is the extreme precariousness of the basis of knowledge on which our estimates of prospective yield have to be made. Our knowledge of the factors which will govern the yield of an investment some years hence is usually slight and often negligible.[130]

This precariousness, itself, can be factored into the motives for forward planning as people try to take decisions to hedge against risks and possible adverse outcomes and to speculate on possible opportunities. What happens, most of the time, is that there is a tacit agreement to fall back on convention by which people assume that the existing state of affairs will continue in the near-term and by extension into the distance future. This reliance on convention can provide a general measure of continuity and stability in economic affairs. However, since this conventional evaluation is based on a sort of psychology of market confidence it can, as Keynes suggested, "change violently as the result of a sudden fluctuation in opinion due to factors which do not really make a difference to prospective yield."[131] That is, investors may change their opinion on the valuation of assets (either upward or downward) based on speculation relating to the mass psychology of the market versus a forecast of the prospective yield on assets over their life time. As a consequence, particularly in abnormal times when the expectation of a "continuance of the current state of affairs" is weak, "the market will be subject to waves of optimistic and pessimistic sentiments."[132] Investment demand is thereby potentially very volatile as the liquidity of investment markets, that often facilitates new investment, can at times impede it.

Investment markets are one facet of the state of confidence, the other is "the confidence of the lending institutions towards those who seek to borrow" which Keynes refers to as the "state of credit."[133] A financial collapse of equity prices may be due to either a weakening of investment confidence or the state of credit. In Keynes' view, given the social fact of a margin of uncertainty and its possible repercussions for an economy (in particular with respect to long-term expectations), inducements to invest and liquidity preference

should not be overlooked by economics even though these notions are difficult to operationalize as part of a precise mathematical model. As Keynes wrote:

> We should not conclude from this that everything depends on waves of irrational psychology. On the contrary, the state of long-term expectations is often steady .... We are merely reminding ourselves that human decisions affecting the future, whether personal or political or economic, cannot depend on strictly mathematical expectations, since the basis for making such calculations does not exist; and that it is our innate urge to activity which makes the wheels go round, our rational selves choosing the alternatives as best we are able, calculating where we can, but often falling back for our motive on whim or sentiment or change.[134]

In short, the human element cannot be expunged from economic reality. It is the principle of uncertainty, its potential impact on investment and, by extension, the level of employment and aggregate demand for the economy as whole, which was the more radical aspect of Keynes' vision. It was the principle of uncertainty that permeated key aspects of his theory and which had to be effaced in order to make the accommodation with the then neoclassical orthodoxy.

To summarize, there are three key analytical elements to Keynes' theory: consumption, investment and the rate of interest. In his theory, consumption became "the sole end and object of all economic growth."[135] The propensity to consume is the relation of the amount of consumption to the level of income. It is assumed to be "a fairly stable function" that depends on the level of aggregate income whereby people are disposed "on average, to increase their consumption as their income increases, but not by as much as the increase in their income."[136] That is, people are likely to consume more if their income is higher, and a higher aggregate income in the economy as a whole is associated with a higher level of consumption. It also means that people tend not to spend all of the increase in their income and that consumption fluctuates less than income, lending stability to the economy by limiting the range of upward and downward movement. Moreover, as people's incomes

increase so do their savings. However, given that "the expectation of future consumption is so largely based on the current experience of present consumption," an increase in the propensity to save can actually depress investment demand.[137] That is, savings as an abstinence of present consumption reduces the expectation of future consumption upon which the decision to invest is based. Savings involves a "transfer of wealth" that does not "require the creation of new wealth" and, indeed, "it may be actively inimical to" the use of capital for productive purposes particularly when the rate of interest is high (there is always an alternative to the ownership of real capital assets such as the ownership of money, debts, etc.).[138]

This explanation of the relation between savings and investment, and the role of the rate of interest, was highly unorthodox at the time. Previously, the marginalists had assumed that savings generated investment and that the rate of interest equalized the two functions. For Keynes, an increasing rate of investment, through its impact on effective demand, allowed for a rising rate of savings. And, it was the propensity to consume that supported business confidence and the decision to invest which, through a multiplier effect, generated a rising level of income for the economy as a whole. That is, the rate of investment was not necessarily dependent on the rate of savings. Moreover, the two could diverge although, over the long-haul, the amount saved will tend to equal investment because any difference produces an equalizing adjustment of income.

In addition, according to Keynes' *General Theory*, investment demand is derived demand. It increases when "future expenditure on consumption is expected to increase."[139] Consequently, any weakening in the propensity to consume, be it caused by an increase in

savings versus investment or an increase in involuntary unemployment, "regarded as a permanent habit must weaken the demand for capital as well as the demand for consumption."[140] In general, the rate of investment is related to the prospective yield or profit compared to the rate of interest. Capitalist entrepreneurs invest when the expected flow of gross profits are enough to both cover the cost of the investment over a period of time and to generate a net profit so that 'wealth-as-capital' can be accumulated by the entrepreneur for further expansion. The rate of net profit on the cost of the investment amortized over its life time is what Keynes called the marginal efficiency of capital (also known as the internal rate of return). The working assumption is that the rate of investment will be pushed to the point "where the marginal efficiency of capital is equal to the market rate of interest."[141] For investment to continue to expand as income rises, there must be a corresponding decrease in the rate of interest. Conversely, a rise in the interest rate can cause the rate of investment to decline as the marginal efficiency of capital becomes too low to warrant the undertaking. In a way, consumption demand fuels the engine of growth which is productive investment. In this way, Keynes returns to the classical economists' preoccupation with capital accumulation. As Keynes wrote:

> Whilst there are forces causing the rate of investment to rise and fall so as to keep the marginal efficiency of capital equal to the rate of interest, yet the marginal efficiency of capital is, in itself, a different thing from the ruling of the rate of interest. The schedule of the marginal efficiency of capital may be said to govern the terms on which loanable funds are demanded for the purposes of new investment; whilst the rate of interest governs the terms on which funds are being currently supplied.[142]

Thus the marginal efficiency of capital and the rate of interest are distinct, with the rate of investment being a function of the rate of interest. As for the rate of interest, Keynes explains that it is determined in the market for money influenced by people's preference to

hold liquid assets ('ready-money' or 'ready-cash'). Keynes defined the rate of interest as "the reward for parting with liquidity for a specified period."[143] Moreover, when the real interest rate is low "the aggregate amount of cash" which people want to hold as wealth "would exceed the available supply"; and, if the interest rate was increased there would be "a surplus of cash which no one would be willing to hold."[144] That is, when the reward for parting with 'ready-cash' is low people will tend to hold more liquid assets. The rate of interest is defined in terms of the demand to hold money and this demand is divided into a couple of parts: that required to carry out current business transactions in the economy as a whole; and the desire to hold money as wealth. According to Keynes, the main reason for "the existence of a liquidity preference for money as a means of holding wealth" is the condition of "uncertainty as to the future of the rate of interest, *i.e.* as to the complex of rates of interest for varying maturities which will rule at future dates."[145] Once again, as with investment demand, the consideration of time and predictability are introduced through the notion of uncertainty. In practical terms, this means that for the person speculating on whether to hold or incur debt, he who "believes that the future rate of interest will be above the rates assumed by the market, has a reason for keeping actual liquid cash."[146] The individual who speculatively believes the opposite "will have a motive for borrowing money for short periods in order to purchase debts of longer term."[147] In summary, Keynes explains that the market price of the rate of interest "will be fixed at the point which the sales of the "bears" and the purchases of the "bulls" are balanced."[148] In the final analysis, central banks set rates of interest on government bonds at various maturities based on an assessment of the demand for money

within the economy as a whole and as informed by economic policy objectives. These central bank rates in turn inform market prices established by other financial institutions.

As Robert Skidelsky documents in chapter sixteen volume two of his biography of Keynes, the *General Theory*, with its method of attacking orthodox doctrine in tandem with advocating an alternative vision and theory of economic life, was a lighting rod for debate in the late 1930s and early 1940s. Skidelsky groups the reactions into three categories: Keynesian, anti-Keynesian and the reconcilers. As the annuals of economic history show, it was the reconcilers such as John R. Hicks, Roy Harrod and Paul Samuelson who won the day in accommodating key aspects of Keynes' theory with equilibrium analysis. The most lasting contribution to Anglo-American economics was Keynes' development of a theory of aggregate demand which Samuelson, using a Marshallian diagram to illustrate the equilibrium level of national income, subsequently named macroeconomics in his textbook *Economics*. The other major accommodation was Hicks' depiction of Keynes' theory as a two-market equilibrium model entailing the aggregate flow of investment and saving and the variables of the rate of interest and savings, known as the IS/LM curve. As for what was left out of the new classical situation named Keynesianism, according to Skidelsky:

> In the course of the argument, much that was unique to Keynes himself – especially his vision of the mainsprings of economic action – got lost.[149]

This vision included the notion of uncertainty which directly challenged several fundamentals of neoclassical economics, including the notion of a rational decision maker who is always calculating her optimal marginal utility and the accepted truism that capitalist markets embody some self-correcting mechanism for re-establishing equilibrium. This meant that the importance Keynes attributed to changing expectations, such as the propensities to

consume and hoard money and the inducement to invest, were for the most part dropped. It should be noted that for many theorists the problem with uncertainty was not just one of vision but of technical accommodation. How can changing expectations (indeed expectations that in the real world are changing constantly) be operationalized within a mathematical model? Some fixed point must be established for measurement purposes.

This new point of consensus in Anglo-American economics lasted until the 1970s when several major economic shocks, namely the first OPEC oil crisis, the breakdown of the Bretton Woods monetary system and stagflation, demonstrated that Keynesian orthodoxy no longer provided a sufficient explanation of the workings of the world economy. A plethora of would-be contenders to a new 'classical situation' emerged over the course of the next several decades including monetarism, rational expectations, new growth theories, neo-Keynesians and neo-Ricardians. However, as Heilbroner and Milberg cogently argue, none have successfully demonstrated their versatility or staying power.[150] In part, this may be reflective of the fact that the global economy is undergoing a period of dramatic structural shifts and it is difficult for one vision or theory to reasonably keep up with the pace of change. From the viewpoint of this study, which concerns itself with foundations of value and price, Ricardo's emphasis on production and scarcity, Veblen's conspicuous consumption, Kalecki's price theory with its reliance on institutional factors and Keynes' effective demand and principle of uncertainty, remain helpful postulates for explaining contemporary economic life, people's consumption and investment behaviour, and the way we value things from a social-economic perspective.

Does Value Matter?

As David Ricardo commented close to two hundred years ago, 'many vague ideas are attached to the word value.'[151] This sentiment is reinforced by the American pragmatist John Dewey who similarly noted: "*Valuing* is a dangerously ambiguous word."[152] As John Dewey further suggests "there is nothing peculiarly "personal" about the prizings, loyalties, ties" which are the subject of evaluations. Rather, valuing and value are social phenomena which are embodied in policies, institutions and customs.[153] As social phenomena, acts of valuing are temporal-spatial, relating to some particular thing, event or situation. There are no absolutes. Turning once again to Dewey, we can agree that:

> 'Valuing' is not a special isolated type of act performed by a peculiar or unique agent, under conditions so unique that valuings and values can be understood in isolation from orders of fact not themselves of the 'value' kind.[154]

Theories within economics or any other social-philosophical field of study that adhere to an absolute or invariable standard of value (i.e., which search for the essence of a phenomena as part of some natural order), or conversely that maintain that all quality of experience is so subjective and individualistic that everything is unique, deny the common thread that must run through any understanding of value. Put simply, valuing and value, based within a particular world view, are conditioned by time and place and are social phenomena. There can be no perfectly objective theory of value, in any field, because the interrelations of institutions and individuals that make up groups and societies are complex and subject to change. However, this does not mean nothing objective can be said, or that scientific methods cannot be applied to lay order to the appearance of chaos. It does mean that we cannot be complacent in accepting ideas as truism or instinct, but must challenge their

meaning through reason and analysis. It suggests that in economics, as in other fields, we need to stop glossing over this socially-laden, protean term, value.

In mainstream economics, the meaning of value has not changed much since Jevons for whom the word value "merely expresses the circumstance of [a product] exchanging in a certain ratio for some other substance."[155] Defining value solely as a ratio of price and quantity as Gerard Debreu does in his *Theory of Value* (1959), or asserting that value and price are synonymous, stymies any meaningful discussion of the social-historical basis of economic value. In economic life, value is about the price a person is willing to pay for a good or service.[156] But, as we may learn from a closer look at a specific market, there is far more to understanding economic value than the actual price. There are the changing definitions of commodities, revealed preferences and tastes, networks of trade, market conventions, institutions as well as people's expectations of future happenings that underlie and inform price and, in so doing, tell us something of why people prize or place worth upon different things. These kinds of considerations will be examined in further detail in the following chapters, as this study endeavours to take a closer look at the changing idea of art and the evolution of a modern art market within the broader context of our capitalist system and the élan of modernity.

To reiterate, value is fundamentally socially fabricated. As Philip Mirowski argues, goods are "rendered quantitative in the marketplace as part of the construction of standardized production and marketing, or, in other words, as part and parcel of the fabrication of value."[157] Money, itself a socially-defined institution, makes these diverse commodities comparable. Thus, money provides a "distinct algebra of value."[158] As

suggested throughout this study, it is only in this narrow sense that actual price, as a standard of comparison and exchange in the marketplace, may be equated as value.

CHAPTER 4

BEAUTY, TRUTH AND THEORY

> *L'art pour l'art* without purpose, for all purpose perverts art.
>
> Benjamin Constant (1804)[1]

> Only those things that are altogether useless can be truly beautiful; anything that is useful is ugly.
>
> Théophile Gautier (1835)[2]

> The work of genius is music, or philosophy, or painting, or poetry; it is nothing to use.... they alone exist for their own sake, and are in this sense to be regarded as the flower ... of existence.
>
> Arthur Schopenhauer (1844)[3]

The thought that the history of ideas is important because it helps us explain and interpret social behaviour is hardly novel. But given the instantaneity of contemporary life, it seems that it is all to easy to lose sight of the sway some ideas continue to exert long after they were first given voice. In short, ideas are more powerful than is commonly understood. The ruling ideas of the time are essentially conservative and, generally, it takes more than the articulation of opposing points of view to counter their influence. Ideas are reinterpreted, rearticulated or fall from use most often in the face of dramatic changes in social-material or political circumstance with which they cannot contend. As this chapter suggests, the history of ideas surrounding the way we value art is no exception. In this vein, this chapter attempts to explore the historical basis of our changing idea of art, and the emergence of

aesthetics as a distinct field of study, in order to better understand the source of today's economic valuation of tangible, one-of-a-kind visual art works as 'priceless' products of human genius.

Traditionally, philosophical aesthetics has to do with 'works of genius' in the fine arts, with the major canonical arts most commonly considered architecture, sculpture, painting, music, poetry and sometime dance. The arts are identified as a distinct sphere of activity with the finest works representing the highest qualities of the human spirit. These exceptional works are further endowed with a capacity to elevate our being. They are viewed as somehow possessing an inherent power to lift us above the fray of everyday needs and wants. And, up until Modernism, classical aesthetics' underlying notion of value was commonly associated with an idealized notion of the beautiful and a belief in the inherent capacity of art to reveal a deeper meaning regarding the spiritual essence of the universe and our place within it as self-defining subjects.

Within philosophical aesthetics, there is also a strong current of belief which views art as a form of intuitive mental engagement that lies outside discursive knowledge as well as the practicality of everyday needs. The beautiful or pure art work is considered the antithesis of any 'use value' as it provides a sort of disinterested satisfaction which, philosophically speaking, represents a finality without purpose. The separation of our experience of the 'pure' in art from practical considerations was central to the Romantics' claim that art was capable of representing a higher, spiritual truth – that it was, in essence, a manifestation of some higher order of being. For example, as Arthur Schopenhauer (1788-1860) maintained:

> The work of genius.... is nothing for use or profit.... we rarely see the useful united with the beautiful.... The most beautiful buildings are not the useful ones; a temple is not a dwelling house.[4]

This early emphasis on beauty as an essential attribute of a work of art was rooted in the Renaissance's re-interpretation of the works of antiquity and the development of a specific artistic canon regarding the representation of the beautiful in nature, mythology and human society. The Renaissance canon of beautiful perfection and its various incarnations (e.g., classicism, mannerism, baroque, neoclassicism) gradually gave way to modernist sensibilities. In the case of the visual arts, the modernist vision of things is often characterized as a family of modes of representation enthralled with non-mimetic patterns of interpreting the external world and inner experience. Thus, with Modernism the centuries old link between mimetic beauty and the artistic quality of a painting was shattered, and in a way a question became its obsession: What are the boundaries that make something purely art? This question, coupled with an infatuation with the means of representation (e.g., the fragmentation of light, the brush stroke, the flatness of the canvas), became the subject of art.[5] For much of the twentieth century, art practices seemed to turn inward as one new art movement after another strove to reveal the elemental unity of what was viewed as a historically progressive artistic endeavour. Thus, with Modernism, while a canon of the beautiful became less relevant (replaced by waves of experimentation with the non-mimetic), the belief that art was a sort of vehicle of higher meaning did not lose ground. Indeed, the supposition that the art work has an unspecifiable essence that is opposed to any notion of 'use value' became a central tenet of much of philosophical aesthetics and art criticism.

The separation of an ideal of beauty, or purity of form, as a manifestation of truth-content from any notion of practical means is also embodied in the broader ideology of *l'art*

pour l'art popularized by such cultural luminaries as Benjamin Constant, Théophile Gautier, Victor Cousin, Gustave Flaubert, Charles Baudelaire, Stéphane Mallarmé, Oscar Wilde and Walter Pater. Under these and other influences, in particular the German Romantics and Idealists, beauty (and subsequently a more generic idea of aesthetic quality) and utility became disjointed. Moreover, as the philosopher Arthur Danto suggests: "The disjunction between beauty and utility," which continued under Modernism (although not without opposition (e.g., arts and crafts movement, Dadaism)), was taken by many as a deep philosophical truth leading to "a highly influential form of the practice of art criticism, construed as the discrimination of good art from bad."[6] The separation of beauty and utility was a key dimension of the legitimization of art as a quasi-sacred bearer of meaning as well as the re-conception of the individual art work as a product of human genius. As part of this speculative reasoning, the artist as genius and modern sage was viewed in heroic term as capable of presenting, albeit in an almost unconscious way, a deeper truth about our existence beyond the vagaries of prosaic life – that is, the artist-genius through the expressiveness of his work became a revealer of truth and renewer of life.

In providing a basis, however subjective and potentially transient, for the discrimination of good versus bad art, these beliefs supported the market mechanism in justifying a method of product differentiation based on a seemingly intrinsic source of value. That is, they helped to strengthen and legitimize a hierarchy of artists-geniuses based on certain ascribed artistic standards and aesthetic qualities which, taken together, were interpreted as conveying some sort of universal meaning, truth or purity as expressed by the artist and as contained within the art work itself. A belief that beauty and utility, and by

extension aesthetic value and economic value, are in opposition arguably remains an underlying current of our contemporary art world. Yet, it may also be supposed that it is this very disjunction, and the associated idea of the art work as a unique product of genius, which have helped to make certain tangible art works, such as the exceptional paintings of renowned artists, 'priceless' commodities and lucrative investment assets. In other words, the ideology of aesthetics and the notion of economic utility have proven to be highly compatible within the realm of a modern capitalist market.

This chapter attempts to trace the evolving idea of art and key points in the conceptual separation of beauty and utility within philosophical aesthetics. The central supposition is that the separation of a basis of artistic quality (e.g., *mimesis* and a normative canon of beauty) from practical usage (i.e., religious, didactic, decorative, sensory pleasure, social, economic) is the foundation of our modern idea of art as a unique product of human genius, which in today's world of the plastic arts informs an underlying basis of a painting's, drawing's or sculpture's long-term economic value. The crystallization of this disjunction represents the first step in the Romantic project to sacralize the arts, but the movement to elevate the social status of certain artisan activities, such as painting and sculpting, begins much earlier. The purpose here is to provide a brief reading of the history of our modern idea of art, with a focus on its visual forms, from two perspectives. The first takes a more social-material viewpoint, beginning with the Renaissance, in describing broad cultural-social changes and by looking narrowly at key innovations within painting. The second, larger part of the chapter, focuses on the development of key philosophical concepts (e.g., disinterestedness, artist-genius) which have influenced, in one way or another, our way of

thinking about art for much of the twentieth century. In particular, emphasis is placed on the influence of two key figures, Immanuel Kant (1724-1804) and Georg W.F. Hegel (1770-1831), as providing the philosophical basis for an underlying re-conception of art and the artist.[7] Admittedly, this approach is highly selective. It does not deal directly with the writings of the Romantics or other key cultural figures within nineteenth-century art criticism. It attempts, instead, to look to the underlying ideas and adopts the premise that there are shifting points of meaning which, over the last several centuries, have dramatically altered how we think about artistic output and how we value art from a social-economic basis.

As the historian Hans Belting suggests, what emerged by the late Renaissance is the beginning of "the era of art" whereupon the 'work of art' became the invention of a famous painter or sculptor as defined by a proper canon.[8] In a sense, a process was set in motion by which the medieval painted image, religious icon or sculpture, was to slowly become the work of art of the high Renaissance. That is, art became an independent concept governed by a set of norms embodying an ideal of beauty which the artist sought to perfect. Due to a number of social-economic factors, the traditional religious and didactic functions of these art practices began to diminish in importance. The output of talented craftsmen producing religious or didactic images or sculptures became the distinguishable works of gifted artists. Perhaps the most obvious evidence of this shift in the definition of a painting is the fact that the genius of specific pictures began to be attributed to individual masters, and painters started to sign works which in the previous era would have been left anonymous. Concomitantly, the economic dependence of the artisan on religious, state and personal

patronage started to decline as artistic production became progressively more integrated into a burgeoning capitalist economy governed by impersonal relations and regulated by the forces of supply and demand. Paintings became modern commodities as they were put to social purposes other than the religious or didactic, appreciated for their pleasurable effects and moral rectitude, and as they began to be collected and traded more broadly among the aristocracy, merchants and an emerging professional class. The appraisal of the artistic quality of a painting or sculpture was associated with the imitative representation (i.e., the *mimesis* of antiquity) of myth, nature and man in accordance with a certain technical mastery and various stylistic, moral and social criteria. Standards for what might be considered a 'good' art work were part of the social traditions and conventions of individual masters' workshops and the guild systems of various urban centres. Gradually art academies, which emerged by the late sixteenth century in Italy and by the seventeenth century in France, became important purveyors of quality and good taste as the institutional embodiment of various shared artistic canons.[9] Through the course of a few short centuries, the 'painted image' took on a more complex identity as a 'work of art' praised for its imitative perfection of beauty in nature and human society, sought after as a possession that signified social standing, and enjoyed for its pleasurable effects and as a decorative good to be bought and sold in the marketplace.

The creation of aesthetics as a distinct field of philosophy in the eighteenth century represents a second point of transition for our modern idea of art. Gradually, the canonical arts became a subject of philosophical discourse, distinct from other forms of human activity and valued, not for any external purpose but, intrinsically in terms of the perfection of the

work itself as the representation of some higher order of truth beyond the empirical realm. As already suggested, while the imitative perfection of beauty became less important, specifically with the advancement of Modernism in the latter part of the nineteenth century, the belief that art had an intrinsic value that is antithetical to utility became an accepted truism. Much of philosophical aesthetics and major elements of art criticism represented an ongoing attempt to push forward the idea that art as a unique form of human activity, intersecting with the spiritual aspects of man's being, must be judged by its own standards. Arthur Danto has referred to this episode as the "philosophical disenfranchisement of art" – that is, as an effort to distance the arts from the practical and the everyday aspects of life.[10] Advocates of this project of exclusion generally supposed that extra-aesthetic considerations of why artists from different eras and places produced different types or styles of art works (e.g., innovations in technique, changes in preference and taste), of why certain cultural artifacts or practices are included as art (e.g., changing social conventions and norms), or why individuals or social groups might prize and covet certain works over others (e.g., fashion, originality, exchange value), should be dismissed as irrelevant to the apprehension of the true or pure nature of art.

Through this process of exclusion, aestheticians effectively transmuted an instrumental notion of the art work into a philosophical conception of art, wherein the fine arts became valued in themselves. The arts were radically re-evaluated as "self-sufficient totalities" independent of any external purpose.[11] Following Kant's *Critique of Judgement*, what emerged in fact was not one theory of art, but a series of them formed around a common theme. The art work was no longer merely an intentional object designed to delight

the senses in an attempt to fulfill a particular artistic canon of the beautiful; it was endowed with an internal essence. From the Romantics forward, art became exalted as representing a sort of non-conceptual knowledge which could give people access to a deeper meaning about human existence. Beautiful perfection became associated with the notion of an absolute truth which only the artist-genius could convey. While an ideal of beauty was central to nineteenth-century theories of art such as Schopenhauer's, under the influence of Modernism it soon gave way to a more general notion of aesthetic quality (commonly associated with certain expressive or formal properties of the art work itself such as the Impressionists' preoccupation with the use of colour and brush strokes to express the fragmentation of light) and was effectively subsumed by a notion of truth, or purity, as the ultimate value. More pointedly, as the French philosopher Jean-Marie Schaeffer argues in his work *Art of the Modern Age* (2000), aesthetics provided a legitimation for a sacralization of art. Art is made quasi-sacred not because it explicitly professed a religious doctrine, but because it is heralded as representing a sort of ontological truth-content which stands as a counterbalance to a common reality inculcated by the growing complexities of scientific knowledge and the secularization of social life.[12] Set up in opposition to the empiricism and rationality of science and capitalist markets, this art is heralded as an alternative, intuitive mode of knowing and experiencing the purpose of human existence as the self-realization of an absolute being. The instrumentality of art is veiled as it is made a subject of philosophical consideration in the service of a profound belief and hope that our lives have a higher meaning than common reality evinces.

Art is, in a sense, mythologized. That is, the canonical arts are placed on an altar as high culture and identified, as Hegel put it, with "the *Divine*, the deepest interests of man and the most comprehensive truths of the spirit."[13] Within aesthetics, the profane aspects of artistic production and consumption are obfuscated. And, as a unified system, art is variably set up as a replacement or supplement for religious-spiritual revelation and philosophical elaboration. This way of thinking about art obfuscates the individual nature of the arts; and, while intent on separating them from prosaic life and the determination of the market, it actually serves to reinforce their identity as unique cultural commodities. In the case of the works of renowned painters, these are made more valuable, financially, through the artifice that they are detached from the material conditions and motives of life. As the Austrian poet and critic, Ernst Fischer, wrote: "Art became an occupation that was half romantic, half commercial."[14] This project of exclusion, which found popular voice in the credo *l'art pour l'art*, arguably helped to bolster the further integration of the plastics arts within a maturing capitalist system. That is, through a process of philosophical re-conception, the artist's status as 'creative-genius' was solidified and the uniqueness of the individual art work was heightened – first, by endowing it with an intrinsic value and, secondly, by accentuating the particularity of the work as a tangible, one-of-a-kind expression. Within the context of a capitalist market system, all this helped to set the stage for a significant change in the economic identity of these art works from a durable commodity whose economic worth was highly variable to a potentially lucrative investment asset, marketing image and speculative asset. The original painting, drawing or sculpture, positioned as the product of human genius

representing a higher truth about our very being, becomes in a sense 'absolutely' unique and economically 'priceless'.

Our Modern Idea of Art

As with the word 'value', the term 'modern', while common enough, does not always have the most apparent meaning. 'Modern' is ordinarily taken to mean what's most current, and it has had this meaning for the peoples of most Western societies for a very long time. The word is also used to refer to the last several hundred years of human history as 'our modern era' which some suppose has been superseded by the post-industrial and postmodern. In the art market, 'modern' no longer means the most current as the term 'contemporary' has usurped it; rather it refers to a specific period of early twentieth-century artistic output. Moreover, related terms such as modernity, modernization, Modernism, also have their own specialized, if somewhat overlapping, meaning. While the purpose here is not an etymological exploration of the term and its derivatives, it is arguable that our very idea of art, which today we take for granted, is a quintessentially modernist conception. That is, historically, artistic output became the work of art within the context of a project of modernity.

As Jürgen Habermas reminds us in his essay, "Modernity – An Incomplete Project" (1980), the word 'modern' was first used in the fifth century in order to distinguish a then Christian 'present' from a Roman and Pagan 'past'. The term has since appeared, again and again, throughout European history as a way of differentiating the "consciousness of a new epoch" from what came before it, in particular the Middle Ages and antiquity.[15] But, as the

cultural historian Jacques Barzun proposes, by the late Renaissance, the word 'modern' while still meaning "present-day" begins to acquire a different, more praise-worthy connotation – that of "progress", "up-to-date", "the latest science", "the most advanced ideas."[16] This is also the beginning of a reversal of the original creed of the Renaissance from the worship, imitation and accepted authority of antiquity, towards the open sharing and exploration of new ideas and new ways of doing and thinking. As Barzun further suggests, this period marks the beginning of a profound cultural shift that would take centuries to play itself out, and would affect everything from literature, religion and philosophy, science, music and painting, to politics and the expansion of a well-to-do bourgeoisie. It is a cultural shift characterized by a fervent belief among the thinking elite in the idea of progress, the power of reason, the spirit of individualism, a felt confidence in one's own time and a projected future freed from past authority.[17] Within the plastic arts of painting, sculpture and architecture, there are major changes which see them rising in prestige, separated from the crafts, gaining autonomy from an almost exclusive religious function and from the classical themes of antiquity; as well as their comparison to other arts (e.g., the comparison of painting to poetry) as a means of elevating their status from the mechanical to the liberal. As Jacques Barzun describes things, the "battle of the ancients and the moderns" does not take place without opposition, but by the late eighteenth century, history had turned a corner and "the moderns had won":

> The word modern had taken on a new force. It no longer meant simply a fresh addition to what we possess from the past; rather, it dismisses each yesterday with something like contempt.... The speaker is born a futurist.[18]

The secularization of the arts is part of the broad project of modernity. For Immanuel Kant, a central figure who bridges the powerful influences of eighteenth-century Enlightenment and early Romanticism, "Dare to know" is the slogan of this modern era which marks humanity's departure from a "self-imposed immaturity" caused by a "failure of courage to think without someone else's guidance."[19] Authority to think and act should not be linked to the dictates of a previous era, but to the capacity and will of individuals to understand, to reason and to judge within their own time and place. This does not mean a complete throwing out of knowledge of the past, but rather a critical questioning of its validity in the present. To Kant, and his immediate predecessors and contemporaries, the Enlightenment represented a deeply felt belief in the infinity of human possibility – that is, to borrow from George Steiner, a belief that the "curve of history was ascendant."[20]

Inspired by the scientific revolution of the seventeenth century, this axiom of progress was based on the conviction that the development of an objective science, universal morality and law and autonomous art, each based on its own inner logic, held the promise of human freedom (i.e., freedom from external needs and oppressions). Thinkers of the Enlightenment believed that the accumulation of specialized knowledge and rational organization could be used for the enrichment of everyday life. The development of rational forms of organization, modes of thought and scientific discovery could liberate human beings from the scarcity of material needs, the arbitrary use of power and the irrationality of myth and superstition. As Jürgen Habermas explains, Enlightenment thinkers believed that the arts and sciences would not only elevate our control over nature, but also advance "our understanding of the world and of the self, moral progress, the justice of institutions and even the happiness of human

beings."[21] Theirs was a vision of a cosmos made up of contingent correlations to be mapped and manipulated through reason and industry. It was a vision of things as "devoid of intrinsic meaning," and a natural world that no longer prescribed to some preordained pattern of creation.[22] It was a world desacralized.

This new world view also gave rise to a new perspective on the self. As part of this contingent natural world, man no longer had to be defined solely in his relation to a higher cosmic order. That is, as the Enlightenment helped to destroy the sense that God was the locus of all meaning, the stage was set for man to become a self-defining modern subject. As Charles Taylor comments, a modern subjectivity was being forged and along with it came "a new notion of freedom and a newly central role attributed to freedom."[23] Man was part of nature and, therefore, part of the mass of contingent correlations to be observed, categorized and objectified. And, yet, he was also a self-defining subject striving to be freed from the constraints and causal necessities of nature. This broad world view with its points of tension – man as part of objective reality and as self-defining subject – encompassed a full spectrum of positions. At its most extreme, it gives root to an atomistic and mechanistic materialism and a radical utilitarianism, as well as, an utopian hope in a new world built through the power of reason and science.[24] In a way, it laid the seeds of future disillusionment – that is, the sense of a hopeless utopia and a hedonism that destroys the capacity for a deeper pleasure and joy in life.

As David Harvey argues, the Enlightenment also took as axiomatic that there was "only one possible answer to any question" and that "there existed a single correct mode of representation" which just needed to be discovered.[25] This absolutism provided a basis for

definitional value-gradients to distinguish high art from popular culture, civilization from primitivism, formal learning from ignorance, seniority from immaturity, social privilege from subservience, and men from women. Above all, the Enlightenment and the project of modernity was a secularization movement based in the belief of the infinity of human potentiality to consciously control destiny. The practicalities of implementing this project revealed a contradictory impulse associated with a youthful capitalist social order. Modernity, characterized as a progressive economic and administrative rationalization and differentiation of the social world, contained a necessary impulse for 'creative destruction' – a will to overthrow tradition and reshape the world anew.

'Creative destruction' was a necessary condition for progress, but in the same instance a fundamental challenge to the belief in unity and a correct way of representing the world. This impulse was endemic to the process of capitalist modernization – a process that entailed a willingness to uproot, tear down, speed-up or destroy in order to reshape the social and natural landscape, to gain advantage and to create new possibilities for economic growth and capital gains. This impulse was part of the cultural and political upheavals of much of Western society as reflected in the great revolutions of the last five centuries, beginning with the Reformation – to unleash tremendous human energies for the purpose of transforming the natural, social and moral world in the name of a better tomorrow.[26] The theme of 'creative destruction' and its sense of perpetual change permeates reflections on modernity from Goethe's *Faust*, which Marshall Berman called the first and best tragedy of development, to Nietzsche's characterization of the immutable essence of humanity as a type of Dionysian maelstrom, to Joseph Schumpeter's entrepreneur as the progressive leitmotif

of a benevolent capitalism.[27] As a vital way of experiencing the hopes and hazards of the world, modernity is by definition ephemeral and contingent. As Berman reminds us in his thought-provoking work, *The Experience of Modernity* (1982), Karl Marx's beguiling phrasing captures the felt discordance and disquiet of this idea of the world:

> All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and men at last are forced to face ... the real conditions of their lives and their relations with their fellow men.[28]

The vision and momentum of modernity are depicted as being in perpetual motion – fixed at one point in a certain time and place only to be broken into fragments and flattened the next as the changing possibilities take shape and become solid in a new form. So the eighteenth century, with its hopes for human progress and its faith in the certainty of abstract reasoning, gave way to the upheavals and reverberations of a series of political revolutionary waves (beginning with the American and French revolutions and extending into the twentieth century), to life-altering scientific discoveries and technical innovations, to dramatic economic expansions and contractions, to the emergence of a modern nation-state and public. It gave way to a disquieting sense of living in two worlds at the same time: the one traditional, known and imbued with myth and superstition; and the other exciting, dangerous and strangely enchanting in its promise of all kinds of new riches for the men and women who embraced it. This 'other' is the world of possibilities; it is a future unchartered by the past that must find its content in the present; a future to be shaped by human ingenuity and will power. It is a world full of utopian potentialities that, from time to time, is made seemingly intolerable for the many who must live through the upheavals, unrelenting uncertainty, unfulfilled promises and the prospect of the next unfathomable terror that lurks

in the dark shadows of modern life. It is on the one half *la promisse du bonheur*, but on the flip-side, as coined by Max Weber, it is the 'disenchantment of the world'.

Romanticism grew out of a *fin-de-siecle* disenchantment with the world of ideas and prosaic life in the last decade of the seventeen hundreds. Not so much a movement as the spirit of an age which extended to at least the mid-nineteenth century, Romanticism can be characterized as both a flowering and a protest within philosophy, political life, literature, music and the visual arts.[29] It unleashed tremendous creative output and new thinking that for some is comparable to the Renaissance, but instead of covering three centuries it encompassed the work of three generations initiated by such influential figures as Jean-Jacques Rousseau, Edmund Burke, Immanuel Kant and Goethe. While Romanticism manifested itself in different ways in different countries, and had many strands to its fabric, there are core features. Romanticism, particularly its German variety, exhibited a certain antipathy towards eighteenth-century Enlightenment thinking and towards capitalism. In many ways, it was a revolt against abstract reason, against the mechanization and fragmentation of life, against bourgeois materialism and the capitalist's cult of money. While not oblivious to the creative aspects of science and the capitalism system, Romantics such as Novalis nonetheless expressed a deep, overbearing dread of a social order that seemed to perpetuate an increasingly narrow division of labour and a system of production based on the market and the power of the machine.[30] The twin forces of scientific rationalism and capitalist production taken to their extremes had seemingly led to an intolerable mechanization of life, and for the Romantics this had to be opposed if human beings were to have the hope of living meaningful and whole lives. This opposition to a rational,

mechanical present led to an idealization of the natural (e.g., the love of nature) as well as a reverence for forgotten beliefs and practices (e.g., folklore, mysticism).[31]

In addition, through the lens of Romanticism, human beings were seen as expressive creatures moved by passion and for whom every thought was infused with emotion. As Ernst Fischer puts it, "passion – intensity of experience – became an increasingly absolute value."[32] The human being became the lonely individual struggling with a sense of abandonment, but imbued with a new self-awareness in a world that had lost a familiar sense of unity in face of the forces of political upheaval and capitalist modernization. The individual, and a proud subjectivism, played a central role in the theatre of political emancipation and a seemingly increasingly fragmented urban life, while always depicted as yearning for a new sense of collective belonging whether based in the romanticized remembrance of the past or as part of some projected utopian future. In other words, there was a recognition of a loss of unity within the fabric of life, and feelings of bewilderment with, and alienation from, current reality coupled with a yearning for a new point of synthesis in man's communion with nature and his potential for freedom through self-expression.

Also, with Romanticism, the imagination was given a new significance as the mental faculty capable of conceiving things in a rounded way, no longer based solely on concepts or logical constructs, but also on how things 'look and feel'. The imagination was viewed as a means for putting together fragments of thoughts, feelings and experiences, for reinterpreting common life and for discovering hidden truths. And the arts became the playground of the imagination, no longer as a form of refined pleasure for the senses, but as a deeply reflective and almost spiritual pursuit. As Charles Taylor tells us, while the standard

function of art was either to provide a pleasurable experience, a historical record or a moral lesson, Romanticism put forward a notion of art as the expression of profound feeling related to a higher truth about human existence. Great art was great because it was akin to nature, not as imitation but, as the purist expression of the potentiality of nature and man's place within it. Art was positioned as the highest expressive activity, as a form of intuitive knowledge about the world, endowed with the capacity to harmonize men with the natural world and with each other.[33] Fundamentally, Romanticism represented a redefinition of man as an expressive being whose capacity for feeling and reason formed part of an indivisible whole. As Charles Taylor explains, feelings represented "a disposition of the will" and "thus modes of awareness," which were essential for man to achieve "self-clarity" and a new type of freedom "seen as consisting in authentic self-expression."[34] That is, the concept of freedom took on a new dual meaning – as independence from external sources of oppression (e.g., material, political) and an inner autonomy to become an authentic self.

Based on this vision of things, the artist was identified as the uncommon individual capable of putting his imagination to the necessary creative pursuit of self-realization. The artist, as creative-genius, sage and modern hero, was endowed with an intuitive ability to express deep hidden truths through a "fusion of idea and form."[35] This individual par excellence, in his reputed rejection of bourgeois life, became the bohemian man of letters or outcast painter. Within literature and painting, Romanticism was iconoclastic in its reaction to the accepted rules, standards and subject matter of classicism; it sought to make common facts and life concerns its subject; it sought to give the ordinary an air of significance, dignity, and the mystical, previously reserved for the uncommon, the aristocratic and the

religious. Romanticism made common reality a subject of art and opened the door for the exotic, the taboo and the folkish. Once again as Ernst Fischer describes things, Romanticism led to major breakthroughs: "[It] led out of the well-tended park of Classicism into the wilderness of the wide world."[36] Certainly within the plastic arts, Romanticism made Modernism possible.[37]

For many, including the cultural historian Jacques Barzun, "The freedom enjoyed by the arts today was their [the Romantics'] achievement."[38] While marking a radical departure in the conception of art, the antecedents of the Romantic upheaval date back over several centuries to the writings of many artists and thinkers, and to the emergence of aesthetics as a distinct field of philosophy in the eighteenth century. The term aesthetics was coined by the German philosopher Alexander Gottlieb Baumgarten, and used as the title of his unfinished work *Aesthetica* (1750-58). It finds origin in the Greek word *aisthesis* which referred, not to art as we understand it but, to reality; and, not to philosophy but, to the sensory experience of perception. *Aisthesis* was "a form of cognition, achieved through taste, touch, hearing, seeing, smell" versus pure or rational cognition and, for Baumgarten, this meaning was quite compatible with his purpose of trying to frame a science of sensuous knowledge wherein the arts were seen as requiring a special use and training of the senses.[39] This etymological meaning was, subsequently, subverted as philosophical aesthetics was formalized not by Baumgarten, who remains a lesser known figure, but through the legacy of the work of Immanuel Kant, in particular his *Critique of Judgement*.

Much as Adam Smith's *Wealth of Nations* has served as a wellspring of modern economics, Kant's third *Critique* has played a powerful role as fount and foil in the

development of our modern idea of art and the assessment of art's value in an expanding westernized world. Much as Adam Smith's treatise was a major point of summation that marked a new beginning for economic thought, this seminal work was a synthetic apex for a discourse on beauty and the nature of aesthetic judgement, which taken as a whole formed an integral part of a broader philosophical system. Kant developed his views over time based in part on the writings of other eighteenth-century English, French and German thinkers, and stimulated by a growing popular interest in Germany, as well as elsewhere in Europe, in the expressiveness of various artistic endeavours, in particular music and the collecting and exhibiting of paintings and sculptures. As argued by Paul Oskar Kristeller in his influential essay, "The Modern System of the Arts":

> During the first half of the eighteenth century the interest of amateurs, writers and philosophers in the visual arts and in music increased. The age produced not only critical writings on these arts composed by and for laymen, but also treatises in which the arts were compared with each other and with poetry, and thus finally arrived at the fixation of the modern system of the fine arts.... this system seems to emerge gradually and after many fluctuations in the writings of authors who were in part of secondary importance, though influential. [40]

Kristeller's essay documents these developments, outlining the significant contributions of a number of French, English and German writers and philosophers, as well as Kant's exposure to some of their ideas and his own contribution to the crystallization of a philosophy of art.[41] As Martha Woodmansee suggests in *The Author, Art and the Market*, many of these early writings were not philosophical theses, but rather were proffered as pedagogy as part of an effort to support the development of the new leisure activity of connoisseurship.[42] Moreover, the conception of art's purpose within these writings was still an instrumental one. While it is impossible to know how extensively Kant was exposed to these other thinkers, Kristeller suggests that it is likely greater than commonly supposed. As

Kristeller puts it, Kant's aesthetics was "the philosophical elaboration of a body of ideas that had almost a century of informal and non-philosophical growth."[43] But more than this, the *Critique of Judgement* put aesthetics on a new plane as a philosophical discourse, and it prepared the way for a radically different conception of the work of art. Through a process of reinterpretation, it laid the groundwork for our modern idea of art as a bearer of meaning and a product of human genius.

Of course, the practices of painting and sculpting, of writing and reciting poetry, and of composing and playing music, have been part of human societies throughout recorded time; and, as illustrated by various prehistoric cave paintings, aspects of these activities relate even farther back through the millennia of human existence. Moreover, various writers and thinkers from antiquity, the Middle Ages and the Renaissance, did develop their own ideas on various artistic practices, some of which through rearrangement or reinterpretation have been used as building blocks for modern aesthetic systems. For instance, the ancient Greeks argued about the relation of poetry and philosophy, and investigated the role of imitation (*mimesis*) in painting, sculpture, music, poetry and dance. The notion of *mimesis* as a common link between painting, sculpture, poetry and music has had a lasting influence at least up until the popularization of Modern art and its theory. But in ancient Greece, the word art was most often used as a general reference to all practices of human craft, workmanship and creativity, with philosophy being the highest form of such human pursuits. And certainly, poetry and theatre were well developed and esteemed creative endeavours, but they were not grouped with painting, sculpture, architecture and music, and defined as a unified system of the fine arts. Comparisons of poetry and music, and painting and sculpture, were also made

by medieval and Renaissance writers. At the time, these artistic endeavours were considered teachable versus the product of innate genius, and the visual arts were grouped with the crafts, including house painting, as part of the guild systems of city-states; whereas the term artist designated either a craftsman or a student (*artista* is coined in the Middle Ages). Furthermore, while Thomas Aquinas and other scholastics discussed the notion of the beautiful, this was not so much associated with any delineation of the essence or intrinsic value of the fine arts as with the existence of God and his many wondrous creations.[44]

Following the fall of the Roman Empire, it is not until the mid-to-late Renaissance that the visual arts begin to take on identities separate from the crafts and from other human activities. Works like Leone Battista Alberti's *On Painting* (*Della peintura*, 1435-6), Giorgio Vasari's *Lives of the Most Eminent Painters, Sculptors, and Architects* (*Le vite de più eccelenti architetti, pettori et scultori Italiani*, 1550), and subsequent lesser known writings such as *The Art of Painting (Arte de la pintura,* 1649*)* by the Spaniard Francisco Pacheo, laid bare techniques and methods which previously had been treated as trade secrets. Some of these treatises also suggested norms for what should be considered quality works and helped lay a basis for the comparison of different paintings and sculptures for readers, spectators, patrons and artists. For example, Vasari's *Lives,* one of the best known and influential of these writings, provided descriptions of artists' lives and select works, technical instructions on the different practices, as well as a theory on the development of Renaissance art, including a set of norms by which "to pick out the better from the good ones and the best works from the better ones."[45] More specifically, Vasari advocated five qualities – rule, order, harmony (relating to proportion and perspective), design (imitation through drawing),

and style (relating to composition and genre) – as a set of standards for assessing the artistic merit of a building, a sculpture or a painting.[46] In addition, he strove to clarify "the causes and origins of styles as well as the improvement or decline of the arts."[47] In so doing, Vasari provided not only an artistic canon for the visual arts, but also gave them a sense of historical development as the perfection of a set of artistic norms idealizing the beautiful in nature and the classicism of antiquity.[48] *Lives* is often considered one of the first art historical doctrines with the late Renaissance presented as the pinnacle of success. As we can gauge through Vasari, these art works were conceived as intentional products and were judged successful based on their conformity to a specific end. Alberti's *On Painting*, Vasari's *Lives*, and other writings such as Leonardo Da Vinci's wide-ranging *Notebooks* served the purpose of helping to increase the prestige of the visual arts, as well as the social standing of the polymath of the Renaissance as having a genius for artistic endeavours. At this time, the arts are flourishing, particularly in many Italian cities, and there is a concerted effort on the part of painters, as well as sympathetic writers and patrons, to have their art considered on the same footing with music and poetry. Nonetheless, it still takes until the end of the eighteenth century for the plastic art of painting to become broadly considered as a liberal art.[49]

While the late Renaissance did not have a formal system of the arts, it does mark a beginning where the notion of 'being a work of art' became central to artistic production. In the case of painting, the work became something more than a representational image venerated for its symbolic significance as religious icon for the purpose of worship or as a sacred history to be read rather than viewed. It starts to be acknowledged as the product of a renowned craftsman through the application of increasingly shared techniques and in

accordance with accepted norms for what is a quality work. The master artisan became recognized as possessing a particular genius for the practices of drawing, painting, sculpting and architectural design and building. In *Le vite*, Vasari variously refers to his subject as *artigiano* (artisan) or *artefice* (artificer/maker) – that is, as both a humble artisan and a divine maker of images (derived from the latin *artifex* and used to refer to the Creator).[50] For example, Michelangelo Buonarroti (1475-1564) is revered as triumphing "over ancient artists, modern artists, and even Nature herself" through "the power of his most divine genius through his diligence, sense of design, artistry, judgement and grace."[51] In this manner, Vasari set the stage for the gradual metamorphosis of the most accomplished craftsmen into artists of "divine genius".

The history of painting during the Renaissance is complicated, involving hundreds of good painters over a three hundred year period. However, there are several interrelated advancements which changed the nature of artistic production and significantly contributed to the transformation of the identity of a picture from that of symbolic image into a work of art. Two such developments were the rediscovery of the techniques of foreshortening the human figure and of perspective presumably used by the Greeks and the Romans, but lost in late antiquity and the Middle Ages. These illusionist devices are gradually recovered, at first seemingly instinctually, by master painters in the thirteenth and fourteenth centuries (e.g. Cimabue (1240-1302), and Giotto (1267-1337)). Then in the following century, with the work of such outstanding early Renaissance figures such as Masaccio (1401-1428), Ghiberti (1378-1455), Donatello (1386-1466) and Brunelleschi (1377-1446), the mathematics behind these methods was formulated. And, significantly, rather than retained for the internal

consumption of masters' workshops, these techniques gradually began to be shared publicly through various treatises.

The importance of the perspective technique cannot be over emphasized. It revolutionized painting by providing the painter with a scientific method for representing the external world as it presented itself to the eye. It provided certain geometric principles related to the rational organization of space and time that enabled the creation of two-dimensional illusions of reality and, as a consequence, freed the painter to undertake a wider range of subject matter (e.g., setting the figure in a more realistic landscape). As Hans Belting points out, under this new paradigm, technique became more than mere handicraft. Technique became "a science of the reproduction of nature capable of independent development."[52] As a science, painting began to share in a broader idea of progress and an openness peculiar to the scientific method. Art was gradually transformed into a "vehicle for a self-regulating discovery of reality and ideal beauty."[53] A clear objective was an idealized replication of the natural and man-made worlds such that the hand of the artist (e.g., the brush stroke) was invisible to the naked-eye.

As Paul Johnson states: "The science of perspective was the basis of the art of composition."[54] Composition is commonly defined as the harmonious arrangement of the parts of a work of art in relation to each other. Composition became a key factor in the development of personal style, in the emergence of distinct schools of artistic expression and an important criterion for judging the artistic quality of a work and how well it perfected a certain canon of beauty. Another important innovation in the emergence of the art work was a change in materials. In particular, this is marked by the shift from fresco wall painting with

tempera (i.e., pigments mixed with egg yolk applied to wet plaster), which entailed a painstakingly slow process of detailed planning and exacting execution, to the gradual adoption of oil for painting and the use of stretched canvases both of which came to Italy from the Flemish and Dutch of the Low Countries. These new materials gave the painter greater freedom to experiment with shadow and light, to create new effects through the greater ease of mixing colours, to be more spontaneous in creating and altering compositions as they were being generated, and to determine the size and shape of their working surface. Importantly, the artist could produce a greater and more varied output as oils and easel painting not only widened the possibility of inventiveness, but were also less time consuming than the older medium.

These innovations, themselves propelled by a spirit of competition and a drive for progress, were, as Paul Johnson puts it: "A commercial impetus to the ending of the religious monopoly of art."[55] These rediscovered techniques and new materials, augmented by the use of visual aids (e.g., mirrors, magnifying lens) to analysis the pictorial subject, animated the inventiveness and precision of individual painters and contributed to the development of different genres of painting (e.g., portraiture, historical, allegorical, still life), while still adhering to the Renaissance doctrine of the imitative perfection of beauty in the natural and man-made worlds. There was a growing demand for these new art works, particularly in the aftermath of the Reformation as a modicum of political stability was restored and as mercantile trade expanded between major European centres, India, the Far East and the New World. Painted images and places of worship destroyed by religious zealots on both sides of the conflagration needed to be replaced or restored. But more than this, the market for artistic

output had expanded beyond the traditional patronage of princes and popes to a growing merchant and professional class. As will be argued in Chapter Five, the new art works as a range of differentiated products had an appeal across a wider spectrum of social classes. The increased portability of oil painting and declining costs of production (e.g., in terms of labour-time) made the commissioning and purchasing of pictures of various types and quality more accessible to an expanding bourgeoisie, particularly within the major urban centres (e.g., Paris, Amsterdam, Antwerp). As wealth increased and was more broadly distributed, more people sought to possess art works in part as a reflection of their rising social status and as emulation of the life styles of older, more privileged classes. In short, painting as an art form took on the identity of a cultural commodity based on a momentum of technical innovations leading to greater product and cost differentiation, a shared taste based on various artistic and social norms, as well as expanding wealth. The groundwork for a modern notion of painting as a liberal art, in particular its identity as an independent work and the emergent of a reciprocal relationship between practice and theory, was essentially prepared by the Renaissance and, subsequently, reinforced by various treatises on beauty and tastes. But, it is not until the late eighteenth and early nineteenth centuries that the philosophic idea of art as the fullest realization of man's natural and spiritual being really comes into its own. And, arguably, it is this second point of transition in the re-evaluation of the painted image as a bearer of meaning that adds impetus to the changing identity of the art work as 'absolutely' unique and economically 'priceless'.

The Legacy of Kantian Aesthetics

Kant's *Critique of Judgement* is a harbinger of a significant point of change in the history of the idea of art. As some contemporary philosophers may readily agree, Kantian aesthetics does not provide us with a theory of art *per se*. It is not preoccupied with delineating the essence of art as the beautiful or as truth. Indeed, for Kant the paradigm of the beautiful is natural beauty and not the artificial variety. Moreover, Kantian aesthetics does not exalt the arts as belonging alongside, above or below philosophy as various Romantics and Idealists would subsequently claim. Kantian aesthetics is about the judgement of taste versus a philosophy of art, and in this sense, it belongs to the eighteenth century.[56] But, the *Critique of Judgement* did pull together a set of speculative ideas on beauty, genius, the role of the imagination and the place of the fine arts, under a common rubric of aesthetic judgement which provided a taking-off point for what was to come. In sum, Kant's importance to a modern notion of art resides in how his metaphysics sets the pendulum in motion for a radical shift in the relationship between art and philosophy, and the subsequent legitimation of the sacredness of art within philosophy and the broader world of art criticism. As Jean-Marie Schaeffer suggests, what emerges, following on the heels of Kant, is a mutual fascination with both art and philosophy in search of a new legitimacy:

> It is as if the loss of the traditional functional legitimations (religious, didactic, or ethical) [of art] had created a void into which philosophy fell, philosophy itself in crisis as a result of the failure of rationalist theodicies and in search of a new legitimacy. Thus begins a long history of a reciprocal fascination, comforted by the rejection of a supposedly common enemy: prosaic reality in all its many hideous guises.[57]

More to the point, Kantian aesthetics can be viewed as a catalyst for a philosophy of art. Kant was a towering figure within his own lifetime. The mere fact that he gave

consideration to the fine arts within his speculative theory of beauty helped to legitimize the arts as a proper subject of philosophical inquiry. Given Kant's fame and the interactive nature of philosophic discourse, in hindsight, it seems inevitable that others would use his aesthetics as a taking-off point in devising their own theories. Indeed, the status of Kant's *Critique of Judgement* as "the most influential of all works on aesthetics," whether truly justified or not, seems to be widely acclaimed even to this day.[58]

Moreover, the third *Critique* completed Kant's system of metaphysics which, among other things, was intent on demonstrating the limits of speculative reason. Through his systematic analysis of an autonomous mind that has limits, Kant challenged eighteenth-century philosophy's unbound faith in the power of abstract reason to explain every aspect of human life. The treatises of the German Romantics and Idealists could not help but react to Kant's breakthrough. While accepting Kant's proposition that abstract reason was not infinite, Romantics such as Novalis and Friedrich Schlegel did not give up on the idea of an 'absolute', but rather sought to substitute the hopefulness of art as a source of truth-content for what they saw as the pretension of discursive knowledge. In contrast, for Idealists such as Schelling and Hegel, art retained the capacity to represent an ontological revelation, but did not replace philosophic self-realization.[59]

In addition, Kantian aesthetics synthesized various pre-existing and new ideas on beauty, on the mental process that leads to a judgement of taste, on genius and the fine arts. Together, these ideas presented a philosophy of 'the beautiful' which speculated that the beauty of the world, as imprinted by the mind, was connected to a moral belief in a higher purpose, but in no way served as proof of an 'absolute'. Taken in isolation, and subject to re-

interpretation, several of Kant's concepts – in particular, the notions of disinterestedness and a finality without purpose, his theory of genius, as well as the preference given to formal properties (e.g., line is superior to colour) – connected forward to nineteenth century philosophies of art and modern art criticism.

In short, as Jean-Marie Schaeffer emphasizes, the historical and contemporary significance of Kantian aesthetics resides less "in what it tells us about art ... but rather in what it can teach us about the status of *discourse on art*."[60] That is, Kant's aesthetics, with it emphasis on the judgement of taste and the beautiful in nature, is not a proper theory of art. Yet, from the moment it was first published, the Third *Critique* has been (and continues to be) used as a founding treatise for a speculative philosophy of art and, more than this, it has become a type of legitimation for the discourse itself. As such, the *Critique of Judgement* does provide insights into the philosophically justification of art as a source of intuitive knowledge and as a bearer of meaning expressed through the individual work's manifestation of another order of truth behind the veil of prosaic life. From a political economy perspective, it is arguable that this subsequent philosophical legitimation of art had the additional effect of transforming the economic nature of tangible art works, such as paintings, through their re-conception as absolute products of human genius.

Taken together with *The Critique of Pure Reason* (1781) (dealing with the foundation of theoretical knowledge and causal necessity) and *The Critique of Practical Reason* (1788) (dealing with the realm of norms, normative laws and with autonomous action), Kant's third *Critique* must be seen as an integral part of the whole of his philosophy.[61] As a whole, Kant's critical metaphysics is a systematic inquiry into the objective validity of knowledge

(scientific, moral, aesthetic and theological) that takes as its central question: "How are synthetic propositions *a priori* possible?"[62] It is an inquiry into how the human mind, which he views as an instrument with definite limits, comes to form judgements believed to be valid independent of experience. A central problem that permeates Kant's thinking is that of human freedom – that is, the freedom of human beings as self-defining subjects to develop and think autonomously, but also to fulfill a higher destiny. According to this view, true freedom is being able to act against one's inclinations and desires in order to decide on the morally right thing. It represents the ability to make a disinterested decision in favour of one's total commitment. This radical sense of freedom is a rejection of a utilitarian ethic, as well as the Enlightenment's notion of man as just another piece of nature to be causally explained. Kant's concern with freedom is not conceived in isolation, but in relation to a belief in the existence of God and the immortality of the soul. As Kant wrote in the *Critique of Pure Reason*:

> Metaphysics has as the proper end of its investigation only three ideas: God, freedom, and immortality; so that the second concept, combined with the first, should lead to the third as a necessary conclusion.[63]

The existence of beauty, particularly within nature, was taken as evidence, although not as sufficient proof, in favour of "the faith in a wise and great author of the world."[64] In other words, the existence of beauty and the claim of faith could in no way be taken as proof of an absolute being or truth. For Kant, these are things which were not knowable in a definitive, conceptual way.

Through his *Critiques*, Kant sought to place metaphysics on a similar footing, methodologically, as the natural sciences, by systematically challenging the proclaimed

supremacy traditional metaphysicists ascribed to speculative reason. He believed that metaphysics should not invent, but rather that its task is to discover the regularities in ascertainable experience, in particular the inner experience of the mind. In Kant's metaphysics, while *a priori* cognition of fundamental principles may be possible, truth is not a given; and, moreover, propositions that we accept as truths may not themselves be completely knowable. As Kant wrote:

> The true method of metaphysics is basically the same as the one Newton introduced into natural science .... in metaphysics: we must try to discover by way of inner experience, that is, an immediate, evident consciousness, those attributes which are certainly given in the concept of some general quality, and even though you do not know the complete essence of the thing, still you can use it securely, in order to deduce a good deal concerning the thing in hand.[65]

In Kantian terms, metaphysics' central problems of God, freedom and immortality are not completely knowable through abstract reason, and ultimately their existence can only be accepted as a matter of faith. Thus, there is no certainty that there is an absolute being. We cannot prove its existence no matter how sophisticated the metaphysics. But, for Kant this did not mean that our knowledge of the world and of ourselves could, therefore, only be derived through direct experience.

Kant was arguing against the empiricism of David Hume in positing a mind capable of apprehending *a priori* principles that regulate our understanding of the external world and inner experience. For Kant, reason had its limits in the pursuit of knowledge and it was the process of knowing that became key to apprehending the validity of knowledge in its relation to objects. As the philosopher Carl J. Friedrich tells us, the "Copernican revolution" in Kant's philosophy lay in his asking a different question from that of traditional metaphysics: by asking about the judgement of objects versus starting with the object of knowledge

itself.[66] As Friedrich puts it, it was Kant's unrelenting criticism of what he called the dogmatism of traditional metaphysics, and in particular the eighteenth century's "unbound faith in the limitless potentiality of reason," that earned him the title of "the smasher of everything" as bestowed by Moses Mendelssohn.[67] At the same time, however, in arguing for the possibility of *a priori* knowledge, Kant was in fact defending metaphysics by attempting to put it on a new foundation. Kant's critical philosophy has served as fount and foil for much theorizing by Romantics, Idealists, Marxists, Positivists and Critical Theorists. As Carl Friedrich reminds us, Kant's critical analysis did not sway the boundless enthusiasm of the Romantics or Idealists as they determined the need "to "round out" the Kantian system by providing the "missing" primary cause or basic principle which Kant laboured so hard to prove was beyond the limits of reason."[68]

Kant considered the *Critique of Judgement* to be the capstone of the whole of his critical inquiry into the validity of *a priori* judgements and the mind's power to synthesize manifold experiences.[69] In the introduction, Kant argued that the faculty of judgement, which mediates feelings of pleasure and displeasure, was the cognitive bridge that links intellect (which mediates knowledge) and reason (which mediates desire). He then divided the main body of the work into two parts: the first, and largest, part dealing with aesthetic judgement, and the second with teleological judgement. In Part One, Kant outlines the main elements of a philosophy of beauty covering such aspects as: judgement of taste; natural beauty and the sublime; the beautiful in art; genius and art; and a division of the fine arts. Kant supposes that taste in the beautiful, as interpreted through the faculty of judgement and relating to the feelings of pleasure and delight (or satisfaction), falls outside of the concepts of casual

necessity and freedom, and is neither a form of understanding or morality. In other words, the judgement of taste is not a cognitive judgement but is rather contemplative; it is not directed to concepts, but to the independent appreciation of the beautiful. Nonetheless, as with reason, there are *a priori* principles at the basis of aesthetic judgement, and these principles are regulative of experience. That is, they indicate the necessary conditions under which we experience things, but do not constitute them.

Kant argues that aesthetic judgement is singular and subjective, but nonetheless it is also universal and communicable. It is singular because it deals with a singular object which is directly accessible; and, it is subjective because it relates to the possible harmonious interplay of an individual's cognitive faculties versus the objective properties of the object itself. Even though every such judgement reflects an individuality, and is stimulated by a specific concrete experience, it is fundamentally grounded in the shared physiology of our mental faculties. In this way, Kant supposes that the judgement of an object as beautiful is bound-up with a subjective feeling of satisfaction which could only have the necessary assent of all and which is, thereby, 'subjectively universal' and 'universally communicable'. Moreover, there can be no definite, objective principle at the base of an aesthetic judgement, but rather the judgement can only be exemplary based in a common sense of the beautiful (i.e., interpreted by Kant as a common feeling as opposed to a common understanding based in concepts). To claim that something is beautiful can only be an *a priori* judgement if it is based in this common sense of satisfaction necessarily assented to by all.[70] As Kant wrote:

> The beautiful we think as having a necessary reference to satisfaction.... But the necessity which is thought in an aesthetical judgement can only be called exemplary, i.e. a necessity of the assent of all to a judgement which is regard as the example of a universal rule that we cannot state.[71]

This implies that, for Kant, a judgment of taste is always problematic as we can never be completely sure of its validity, as this judgement can only ever be exemplary of an undefinable rule which is evident as a manner of assent (i.e., felt by all and universally communicable). Indeed, the "universal rule" itself could only be apprehended through exemplary realizations. As Jean-Marie Schaeffer suggests: "The rule is in a way the shadow that the judgement of taste projects in front of itself."[72] From this perspective, natural, or artificial, objects of beauty are exemplary forms (i.e., specific configuration of specific elements of space and time), and the social norms that come to govern these aesthetic representations can only be taken as evidence of their subjective universality.

As already mentioned, in Kantian aesthetics, the feeling of satisfaction which results from a judgement of taste is grounded not in the object itself, or in accord with an empirical consensus, but rather in a felt equilibrium of the cognitive faculties – that is, in "the free play of the imagination and the understanding" engaged in the reflective contemplation of the beautiful.[73] Kant thinks that the faculty of the imagination acts as an intermediary that imposes an *a priori* spatial and temporal schema on sensations, and brings the resulting sensuous manifold into contact with the organizational principles of the mind. In the case of the apprehension of beauty, specifically within nature, he supposes that the faculties of the imagination and understanding achieve a harmonious relation which is indeterminate (i.e., relating neither to a specific schema or conceptual determination). The resulting feeling of pleasure is that of an instance of reflection. Or as Kant put it: "that is beautiful which pleases in the mere act of judging it (not in sensation [enjoyment] of it or by means of a concept)."[74] Thus Kant did not view aesthetic judgement as derived from specific *a posteriori* knowledge

(although taste may be refined by education and experience), but rather as a spontaneous experience grounded in the nature of our mental make-up. Kant's ideal of beauty is an aesthetic attitude that exists in the mind versus the concrete properties of an object. His aesthetics is primarily concerned with discerning a mental attitude and experience and can be characterized as a non-essentialist approach to beauty, as beauty itself is indeterminate.

Kant's notion of form is important to understanding the interplay of the mental faculties. In Kantian aesthetics, the beautiful relates to the form of the combination of different elements within a representation as it produces a unity of a manifold of sensations and excites a feeling of satisfaction. As discussed in the *Critique of Pure Reason*, what Kant means by form are the pure spatial and temporal elements that he supposes are apprehensible *a priori* within the mind and which can, thereby, be universalized.[75] Thus, for Kant it is the formal unity of the sensuous manifold exemplified within the representation of an object, rather than its sensuous materiality (e.g., colour, tone), which stimulates a judgement of taste. Or put an other way, the purposiveness of the form is a criteria of a 'pure' judgement of taste which is by definition disinterested.

As described in the *Critique of Judgement*, what is meant by the form of an object is the interplay of the design, outline, figure, play or composition of the representations or sensations synthesized by the imagination. It is only if this synthesis then blends with the understanding that the feeling of satisfaction arises – that is, arising from the coincide of a sensuous manifold adhering to some *a priori* mental content. In contrast, the mere matter of a representation (e.g., a colour or tone) is clearly depicted as inferior to form, as it is interpreted as relating to a mixture of charm and emotion (i.e., simple sensation or merely

pleasant).[76] The restrictions of Kant's formalism, as related to the visual arts in particular, are captured in the following quote:

> In painting, sculpture, indeed in all formative arts – in architecture and horticulture, so far as they are beautiful arts – the *delineation* is the essential thing; and here it is not what gratifies in sensation but what pleases by means of its form that is fundamental for taste. The colors which light out the sketch belong to the charm; they may indeed enliven the object for sensation, but they cannot make it worthy of contemplation and beautiful....The *charm* of colors ... may be added, but the *delineation* ... constitute[s] the proper object of the pure judgment of taste. To say that the purity of colors ..., or their variety and contrast, seem to add to beauty does not mean that they supply a homogeneous addition to our satisfaction in the form because they are pleasant in themselves; but they do so because they make the form more exactly, definitely, and completely, intuitible, and besides, by their charm [excite the representation, while they] awaken and fix our attention on the object itself.[77]

Thus, such aspects of representation as colour and tone are considered as strictly sensory and empirical. They could only contribute charm and emotion. Whereas spatial and temporal features specifically arranged as particular combinations of figures, places and things are what excite the feeling of satisfaction in the reflective contemplation of the beautiful. Kant's emphasis on form is an important means of explaining the capacity of the mind (in particular, the inner working of the cognitive faculties of the imagination and the understanding) to synthesize its sensory and thought processes in order to find unity in subjective awareness and to embody *a priori* judgements regarding the external world. In a sense, what Kant is saying is that it is the mind that imposes a sense of unity on sensuous reality, but more than this, the unity of form already exists mentally (but not in a determinate way as it is always subjective and reflective versus objective and cognitive).

Another of the *Critique*'s conditions of aesthetic judgement is that of disinterestedness. For Kant, the emphasis on the disinterested character of aesthetic satisfaction has to do with differentiating the indeterminancy of the aesthetic orientation from other worldly relations – that is, to establish the idea of beauty as a finality without

representation of any specific end. Moreover, for Kant, emphasis is, first and foremost, placed on the realization of the beautiful within nature. In contrast, as Jean-Marie Schaeffer points out, for the Romantics the main objective becomes the establishment of the autonomous and "autotelic nature of the work of art" itself (i.e., to mark the work as an end in itself as it represents the highest form of self-realization in the quest for a unifying truth about human existence outside of prosaic life).[78] In Kantian aesthetics, in order to judge anything beautiful the receptive attitude has to be one of "an entirely *disinterested* satisfaction."[79] As Kant wrote:

> Taste in the beautiful is alone a disinterested and *free* satisfaction; for no interest, either of sense or of reason, here forces our assent.... All interest presupposes or generates a want, and, as the determining ground of assent, it leaves the judgement about the object no longer free.[80]

That is, a 'pure' aesthetic judgement[81] has nothing to do with either the satisfaction of immediate needs or practical interests; and the satisfaction experienced is not conditioned by any external interests. It is not that other interests may not impinge on the judgement of taste, but rather that they have nothing to do with it in its 'pure' form as the following quote suggests:

> If anyone asks me if I find that palace beautiful which I see before me, I may answer: I do not like things of that kind which are made merely to be stared at. Or I can answer like that Iroquois Sachem, who was pleased in Paris by nothing more than by the cook shops. Or again, after the manner of Rousseau, I may rebuke the vanity of the great who waste the sweat of the people on such superfluous things. In fine, I could easily convince myself that if I found myself on an uninhabited island without the hope of ever again coming among men, and could conjure up just such a splendid building by my mere wish, I should not even give myself the trouble if I had a sufficiently comfortable hut. This may all be admitted and approved, but we are not now talking of this. We wish only to know if this mere representation of the object is accompanied in me with satisfaction, however indifferent I may be as regards the existence of the object of this representation.[82]

In this way, Kant acknowledges the existence of extra-aesthetic factors, in particular a social interest in refined inclinations. However, Kant's concern in the *Critique of Judgement* is clearly with 'pure' aesthetic judgement and, in particular, with how this differs from

normative judgements base on conceptual rules. Consequently, the social dimension, along with its contradictory impulses, is dismissed in favour of the pursuit of a subjectively universal basis for aesthetic judgement which Kant thought could be found in a common feeling grounded in the natural uniformity of the human mind.[83] It is in the sense of a reflective mental experience that "every interest spoils the judgement of taste and takes from its impartiality."[84]

In the "Analytic of Aesthetic Judgement" little difference is made between the disinterested aesthetic attitude elicited by the formal effects represented in pictorial art, decoration or landscape gardening. As already mentioned, the only categorical difference which is important is that between natural and artificial beauty, whereby, the former variety is considered purer because it is apprehended as a manifestation of a finality without purpose. In other words, natural beauty, unlike an intentional object such as a painting, is not profaned by possible conceptual rules or practical ends (e.g., such as those that guide a painter). Kant accords natural beauty a higher status because he believes that its apprehension almost always evokes a moral interest. In effect, the elevation of natural beauty serves a broader objective of supporting a metaphysical faith in a higher being and purpose. As Kant wrote, "the beautiful is the symbol of the morally good" and only in this sense does "it gives pleasure with a claim for the agreement of everyone else." That is, it is only as such a symbol that "the mind is conscious of a certain ennoblement" above the mere sensation of pleasure.[85]

Kant seems to acknowledge that all art works as human products are intentional objects, and therefore cannot be conceived as finalities without the representation of a specific end. In this respect, an art work cannot be a representation of a pure judgement of

taste. However, part of Kant's project is to reconcile his pure aesthetics with the fine arts, and he attempts to achieve this end through a theory of genius. Kant supposes genius, as an "innate productive faculty of the artist", is a natural gift or talent. As an innate talent, genius is a favour of nature "for which no definite rule can be given."[86] In other words, while learning the conventions and techniques of a particular art are important, this schooling or training is not sufficient for the creation of truly original works of art. The capacity for originality becomes the central property of genius. The production of truly original works serves as a standard for others to follow, not as mere imitation, but as an example of what can be achieved if the naturally gifted free themselves from the constraints of rules once learned. As Kant wrote:

> Genius is the exemplary originality of the natural gifts of a subject in the free employment of his cognitive faculties. In this way the product of a genius (as what is to be ascribed to genius and not to possible learning or schooling) is an example, not to be imitated (for then that which in it is genius and constitutes the spirit of the work would be lost) but to be followed by another genius, whom it awakens to a feeling of his own originality and whom it stirs so to exercise his art in freedom from the constraint of rules, that thereby a new rule is gained for art.... But because a genius is a favorite of nature and must be regarded by us as a rare phenomenon, his example produces for other good heads a school, i.e. a methodical system of teaching according to rules. [87]

Kant further suggests that the beautiful work of an artist-genius could elicit a pure judgement of taste if we can, in the instance of perception, put it out of our minds that this beautiful work is not an intentional object. That is, the product of genius could evoke such a pure form of apprehension provided that the work, even though it is designed, is not seen to be so. While the form of the representation punctiliously observes the rules that make it art, in order to be apprehensible as a manifestation of a finality without purpose it must show "no trace of the rules having been before the eyes of the artist and having fettered his mental powers."[88] As with late-Renaissance thinking, Kant suggests that beautiful art should look

like nature, although we should not be aware of it as art; and that it is innate genius that establishes this analogy between nature and art. In short, the work of genius is conceived as a quasi-natural object. In this way, Kant devises a means of reconciling aesthetic judgement with the existence of the fine arts, although it is not a logically satisfying manouevre. The supposition that the intentionality of some art works can be suspended because of their superior nature-like qualities seems to be an attempt to neutralize the dichotomy between natural and artificial beauty and suggests that the arts are radically distinct from other human activities.

In the end, Kant seems to move away from the extreme implications of his theory of genius, recognizing that the arts are regulated by rules and, thereby, do involve conceptual determinacy as well as the representation of a specific end.[89] However, almost regardless of his final position, which makes room for a descriptive knowledge of the arts, the consequences of this manoeuvre are propitious for the development of a speculative theory of art. In particular, it is Kant's notion of a finality without representation of a specific end, combined with his theory of genius, that lay the ground work for the Romantic thesis that the art work represents an end in itself as the manifestation of the realization of an absolute being or truth.

Romantics, Hegel and A Theory of Art

It is difficult to assess the full extent of the influence of Kant's *Critique of Judgement* on the philosophy of art or, more broadly, on the art world of the nineteenth and twentieth centuries. As J.H. Bernard points out in his "Translator's Introduction," the third *Critique*

was taken as a starting point by most of Kant's prominent successors, including Novalis, the Schlegel brothers, Schopenhauer, Schelling and Hegel.[90] We also know that Kantian aesthetics had a significant influence on French writers and the nineteenth-century credo of *l'art pour l'art*, as well as such twentieth-century luminaries as the American art critic Clement Greenberg who claimed that the *Critique of Judgement* "is the most satisfactory basis for aesthetic we yet have."[91] While Kant's third *Critique* was clearly not a theory of art, it was still used as a litmus for other thinkers. While it concerned itself principally with judging an aesthetic experience and valued the beauty of nature above the arts as artifact, this did not stop others from adopting and reformulating its key concepts in order to develop their own metaphysical systems and theories of art focussed, among other things, on the objective properties of the work of art.

The Romantics and Idealists gave the fine arts a prominent, if not central, role in their various systems of philosophical thought. They took as their task the construction of a theory of art which sought to give the work of art an intrinsic value as a source of ontological truth. They devised their project in opposition to the fundamental thrust of Kantian aesthetics while, nonetheless, borrowing from it and radically repositioning certain ideas. That is, while Kant's aesthetics concerned itself with an idea of beauty which is indeterminate, their theories of art focussed on the evaluation of the art work itself as part of a cognitive objective judgement (i.e., aesthetics becomes a cognitive discourse based on *a priori* criteria). For Kant, the fine arts, which he recognized as empirically knowable, clearly played a secondary role compared to natural beauty. In contrast, for the Romantics and Idealists, artistic activity was conceived as one of the highest forms of human activity, akin to the divine; and, the arts,

as a representation of the ideal of beauty, became a central focus of their philosophical deliberations. Whereas Kant considered aesthetic judgement subjective and singular, their doctrines were based on an axiological definition of art as ontological truth-content, wherein the art work was a representation of an ideal that is objectively universal. Their theories often became transcendental inquiries fixed on the belief that there was a hidden reality or realm of being, behind the empirically knowable world, of which art was an object. While Kant cast doubt on his own theory of genius, the notion that art could be conceived as a quasi-natural manifestation of a finality without a specific end became a pivotal supposition of philosophical Romanticism. In sum, Kantian aesthetics was both fount and foil for a philosophical discourse on art and a redefinition of the art work as an almost sacred product of human genius.[92] In a sense, the uniqueness of the work of art may be seen as taking on a double meaning – as a tangible, one-of-kind product of an artist-genius and as the manifestation of a higher meaning or absolute spirit of the world.

At risk of oversimplification, the purpose here is to outline in brief some of the common threads that bind the Romantics and Idealists, in particular Hegel, in the development of a theory of art and its influence on Modernism as a project of historical development. As already described, Romanticism was a reaction to the Enlightenment's objectification of nature and man's place within it. It found root in a strongly held notion developed in J.G. Herder's expressive anthropology and elsewhere (e.g., Johann Wolfgang Goethe, Jean-Jacques Rousseau) that human action and life were expressions through which man came to realize his aspirations and clarify the meaning of these outcomes for himself. In other words, through his expressions man came to know himself; he achieved a rational

self-awareness which was seen as the ultimate goal of human existence. Man became both biological entity and meaningful expression, not in relation to some external order, but rather as an unfolding from within. As Charles Taylor describes it, this expressive theory of the subject's self-realization marked a sharp break with the Enlightenment's objectification of man as part of nature. If human life was "both fulfilment of purpose and clarification of meaning", it was because humans were more than just living creatures.[93] They were beings capable of meaningful expressive activity through the disposition of feeling and will as indivisible aspects of the self.[94] Man was not just part of nature, he was, through his expressive capacity, in touch with the spiritual force which represented itself within nature. Human life was not divisible (e.g., feeling separable from reason, body from soul), but the realization of an expressive unity of the self in communion with the wider world. In philosophical Romanticism, man was seen as defining himself through expression; expressive activities became the highest form of self-fulfilment and freedom; and language and art became the "privileged media" through which this expression was realized.[95]

Through this lens, art is viewed anew, not as Aristotle's *mimesis* or Renaissance perfection but, as a locus for self-clarity and freedom, as something that expanded our existence and purified our being. As Taylor explains, art became a vehicle for the clarification of meaning and the expression of an 'idea'. The freedom it stood for was not just an independence from external control (i.e., the freedom of the Enlightenment), but rather an "authentic self-expression" capable of revealing the true harmony behind the veil of prosaic life and any self-deception we may unwittingly conjure.[96] In a world which was undergoing a profound secularization, the fine arts (beginning with poetry) through the scope

of expressive speculations were sacralized as the representation of some absolute unity or truth related to the meaning of the whole of the universe. As Novalis wrote, poetry is "the self-consciousness of the universe"; and the poet "represents the subject-object – the soul and the world – in the most literal sense of the term." [97] With this way of thinking, poetry and eventually all the canonical arts were elevated to a quasi-religious status. And the artist, through his innate genius, was identified with the prophet, the visionary, the creator himself.

Another key touchstone for the Romantics and Idealists was an idea of unity. This preoccupation encompassed a strongly held belief in a psychic connectedness with the life-giving force of an organic universe. Vitalized by the after-effects of the Reformation and the Enlightenment, there was a longing for a renewed sense of unity within the social fabric of life (e.g., Novalis longed for the restoration of the medieval Church; Friedrich Schlegel for a re-established classical literature). At the philosophical level, this yearning animated efforts to create monistic systems of the cosmos which Jean-Marie Schaeffer characterizes as a renewed demand for "a theological vision of the universe."[98] Following on the heels of Kantian critique which was seen as undercutting the very possibility of a speculative ontology, the Romantic and Idealist thinkers wanted to re-establish a philosophy of being and the necessity of an absolute, but reinterpreted from a subjective perspective. For the Romantics, the discursive methodology of philosophy was incompatible with the grand project of creating a monistic ontology. Only the work of art, through its ability to conjure an expressive unity, could hope to reveal being. The fine arts, and in particular poetry, took centre stage over a discursive knowledge incapable of ever accessing the unitary spirit of the absolute.[99] In contrast, Idealists, such as Schelling and Hegel, reinstated philosophy as a

representation of ontological truth-content, while retaining art's revelatory promise and giving it a prominent position within their systems of ideas. For example, in Hegel's *Aesthetics*, art retained its ontological function, but as subordinate to the higher realizations of absolute spirit to be attained through Christian religion and philosophy.[100]

Romanticism and Idealism marked the beginning of art as the 'other' of philosophy, whereby a theory of art seemingly became inseparable from philosophical elaborations on being and God. Fundamentally, these various philosophical elaborations served to legitimize a belief in the sacredness of the fine arts. As Jean-Marie Schaeffer suggests, the beautiful art work is reduced to the true, and aesthetic experience identified with the determination of an ontological content. Art is made a philosophical concept – that is, as an ideal essence inseparable from theory.[101]

A final earmark of a speculative theory of art is its historicist nature. Historicism here refers to the belief that there is a necessary process underlying the evolution of historical events and facts. Historical theories claim that there are laws which explain the necessity, as opposed to the probability, of particular facts. They offer a causal explanation of history as deducible from a universal principle or totality (e.g., art as an internal essence) and as the completion of a postulated future. This determinism fits historical events and facts into a foretold movement as based on some ontological principle. It assumes a transcendent essence behind empirical reality which is predictive. This way of seeing is opposed to a reading of history as an inductive search and as an interpretation of past experiences which might inform our understanding of the human record and, in some way, help guide future actions. According to Schaeffer, this kind of historicism is evident in Schlegel's history of literature

and in Hegel's historical systematization of the canonical arts.[102] It also plays a role in Modernism as a necessary, historical artistic movement, in particular as interpreted as the fulfilment of a series of artistic missions aimed at revealing the true nature of art.

Once again, as Jean-Marie Schaeffer emphasizes: "The elaboration of a speculative historical-systematic theory" aimed at legitimizing the sacredness of art through philosophical elaboration "remained largely at the planning stage among the romantics."[103] It is Hegel who completes the project, and provides a philosophical rigour and depth unmatched by any of his contemporaries. He succeeds where the Romantics fell short in developing a philosophy which encompassed art as a sensuous manifestation of absolute spirit, or *Geist*, while placing reason, as conceptual clarity, at the centre of his mature system. As Charles Taylor explains, Hegel's synthesis reconciled the Romantics' aspiration for an expressive unity with rational understanding, by providing "a vision of a spiritual reality underlying nature, a cosmic subject, to whom man could relate himself and in which he could ultimately find himself."[104]

Hegel's notion of *Geist* provides the ultimate point of reconciliation and unity. As Taylor clarifies, Hegel's *Geist* is not the God of traditional theism; it is not a spirit which exists without man, rather the cosmic spirit lives only through men as "the indispensable vehicles of [its] spiritual existence, as consciousness, rationality, will."[105] This *Geist* is the creative force underlying the whole of the universe, and has purpose and ends irreducible to the finite spirit of humankind. Hegel supposes that the underlying spirit of the universe strives to bring to completion a self-expression. The first incomplete attempt at this self-expression is in nature. Nature is depicted as a reflection of *Geist*, and man as a conscious

being perceives that the spirit of nature is one with his own. That is, man is at once both object and subject. As Taylor discusses, through a process of self-realization man is able to see himself both as a fragment of the whole and as a vehicle for cosmic spirit. He is able to commune with the spirit of nature, but at the same time maintain his own self-consciousness and autonomous will. In a twist that no Romantic would have ever conceived, for Hegel it is man's vocation for rational autonomy as a vehicle of spirit which enables the fullest self-realization of *Geist*. The highest realization of spirit is the self-knowledge of absolute spirit through man, and reason, as conceptual clarity, is given the most prominent role in achieving this ultimate goal. As Taylor sums up:

> The synthesis in art is not rejected – Hegel throws nothing out – but it is subordinated as the first stage of absolute spirit to the higher realizations in religion and, at the summit of clarity, in philosophy.[106]

Hegel insists on the possibility of unity in the tide of human existence, while encompassing the analytical divisiveness of reason as part of the necessity of autonomous will. The fullest realization of *Geist* is through pure conceptual thought and not, as the Romantics held, through the intuitive, near-mystical content of art.

Hegel's aesthetics is set up to fulfill the requirements of his overall philosophical system which as Taylor puts it, is intent on illuminating "the whole of human history – political, religious, philosophical, artistic."[107] Hegel's philosophy is imbued with a sense of historical evolution moving to a point of ultimate synthesis in conceptual thought. Art in its relationship to the other forms of absolute spirit is conceived as inferior and as only the first stage in its movement. Art is depicted as a sort of immediate knowledge of *Geist*, realized in the form of sensuous intuition, whereas religion is defined as the internal consciousness

of the absolute and philosophy as its self-consciousness or self-realization. The point of ultimate synthesis lies in the infinite freedom of conceptual thinking which only philosophy can provide.

While each form of the absolute is autonomous and goes through its own evolutionary development, the forms are integrally interconnected. For its part, art attains its highest stage in its Greek classical phase until it is supplanted by (Christian) religion as a superior form of the realization of cosmic subject. In turn, religious consciousness finds its ultimate truth through philosophical thought. In Hegel's aesthetics, art belongs to the past in the sense that it has been surpassed by philosophy. That is, art had reached its pinnacle in the historical development of the self-realization of spirit. This does not mean that art ceases to exist empirically, but rather that philosophy is there to take up its speculative content. As Hegel wrote:

> Art, considered in its highest vocation, is and remains for us a thing of the past. Thereby it has lost for us genuine truth and life, and has rather been transferred into our *ideas* .... The philosophy of art is therefore a greater need in our day than it was in days when art by itself as art yielded full satisfaction. Art invites us to intellectual consideration, and that not for the purpose of creating art again, but for knowing philosophically what art is.[108]

In this thesis of the 'end of art', the truth in art becomes knowable only through philosophical consideration in large part because the richness of spirit exceeds art's capacity for manifestation. Art and theory are wedded together.

Hegel in his mature synthesis, while greatly indebted to the third *Critique*, in effect turns Kantian aesthetics on its head. His is truly a philosophy of art, asserting "that beauty of art is higher than nature," as it is only the former which is "*born of the spirit.*"[109] As man is the vehicle of cosmic spirit, the products of his mind, of which art is one form, will always

stand above natural phenomena in its presentation of ontological knowledge. Whereas nature is a mere embodiment of spirit in sensuous form, art is the intuitive manifestation of the absolute and presents the true meaning of sensuous reality. Whereas natural beauty is contingent, the quality of beauty in art is ideal, radiating as the manifestation of the 'idea' in sensuous form. In Hegel's *Aesthetics*, the natural world in its relation to *Geist* is conceived as a type of illusion; nature presents itself as a self-sufficient reality which is cut off from its ideal foundation. Even as an embodiment of *Geist*, natural phenomena contain much that is contingent and hidden. For its part, the true work of art does not serve some transcendent meaning (i.e., as in symbolic art) or any external goal be this usefulness or pleasure (i.e., as a decorative product or means of enjoyment). Created through the human imagination, the work acts to unite an external sensuous appearance and an internal spirit. As Hegel argued:

> Art liberates the true content of phenomena from the pure appearance and deception of this bad, transitory world, and gives them a higher actuality, *born of the spirit.*[110]

In this sense, art is conceived as a means of ontological vision. As Charles Taylor explains, the work of art acts to transform the external world into a semblance of itself. That is, art purposely "leaves something out" in order to create an object which "makes apparent the necessity of *Geist.*"[111] This work of art is not mere imitation, rather, through an inner necessity of the imagination, sensuous reality is transformed into a manifestation of *Geist.* In this way, art reveals the true being of the external and sensuous. As Schaeffer puts it, in Hegel's aesthetics "truth is not symbolized by the work, it is incarnate in it."[112] This inner necessity to reveal truth about the whole of man's existence in itself is what Charles Taylor refers to as a case of inner teleology with "the art work to be compared to the living being."[113] In this way, Hegel adopts Kant's notions of a finality without purpose and disinterestedness

while conceiving the existence of the art work as nothing but the manifestation of the 'idea'. Once again, as Taylor interprets for us:

> Its entire existence is to show this inner necessity forth. To see this fully manifest in the sensuous exalts us. It is the beautiful. And because the sensuous is here to manifest the Idea, art is 'disinterested', the sensuous in art is not an object of desire.[114]

The work of art is elevated above the needs and wants of prosaic life, and endowed with an intrinsic value, as a manifestation of the inner spirit of the universe as a whole. The beautiful art work, as a manifestation of spirit, is separated from any utility.

As in Kantian aesthetics, for Hegel beauty arises where the sensuous and the ideal come together, but the beauty of the work of art is clearly superior to its natural counterpart. Hegel agrees with Kant that the beautiful object exhibits a finality which cannot be explained by an external purpose. That is, to judge something as beautiful has nothing to do with any kind of utility. He adopts Kant's finality without purpose and pushes the frontier of its meaning for the art work itself. For Hegel, art has a self-purpose as the expression of its own ends as part of "man's rational need to lift the inner and outer world into his spiritual consciousness as an object in which he recognizes again his own self."[115] As well, Hegel's makes it clear that, as beautiful art is a mere presentation of the cosmic spirit, it is not something that can ever be clearly defined. The beautiful always defies conceptual clarity as reason is not the realm of artistic expression. Again as Charles Taylor explains, for Hegel "the work of art does not 'say 'anything in a straightforward" way; its vision "is one we see in it, and any statement of its content is the fruit of interpretation and subject to challenge and perpetual reformulation."[116] In short, art cannot provide the clarity of the higher levels of self-consciousness, rather it achieves its vision of things while being unaware of it own

underlying congruities. But more than this, a lack of clarity is actually essential to the work of art. It is what makes art distinct and compelling.

Hegel also takes on Kant's theory of genius. For him, the work of art is the product of talent and genius, wherein talent is the specific technical skill acquired through "reflection, industry, and practice" and genius is a "universal capability, which man has not the power to give to himself."[117] The artist must have talent in order to master the external material of his craft. Genius, on the other hand, is something less tangible; it is akin to the inner necessity of the work itself which the artist cannot directly know, but which is also, nonetheless, affected by the depth of his life experience. It is, as Hegel put it: "Fathomed only by the direction of the artist's own spirit on the inner and outer content of the world."[118] As Hegel wrote:

> The spirit and heart [of the artist] must be richly and deeply educated by life, experience, and reflection before genius can bring into being anything mature, of sterling worth, and complete in itself".[119]

Thus, genius works in mysterious ways, but uncommonly without a foundation of experience and hard work as "it is study whereby the artist ... wins the stuff and content of his conceptions."[120] Thus, for Hegel, the artist-genius, in following an inner necessity which he cannot truly fathom, is capable of revealing an ontological vision. The artist-genius becomes the "revealer of deep truths."[121]

Hegel's *Aesthetics* is part of the bedrock of the philosophy of art. As Jean-Marie Schaeffer describes it, Hegel's theoretical project combines a historical hermeneutics with a semiotic analysis of the fine arts. It brings together a theory of the forms of art (i.e., symbolic, classical, romantic), which are historically determined, with a system of the five

canonical arts (i.e., architecture, sculpture, painting, music and poetry). The intersection of the forms of art and the different modes of artistic expression provides a speculative analysis of art's historical development. As Charles Taylor describes, throughout this history, it is clear that for Hegel art's content is teleological.[122]

Hegel maintains that art as a form of the absolute attains its highest achievement during the Greek civilization. Greek classical art, in particular sculpture, is viewed as achieving a synthesis of the body and spirit of man in an age when the Gods were understood in human form. In fact, the Greek understanding of God in man-like form is considered a breakthrough in that it brought the spirit into harmony with man; this synthesis is a triumph of an unconscious struggle to reach a vision of *Geist* as free subjectivity. Classical art represents "the fulfilment of the realm of beauty."[123] For Hegel, this is when art first comes to be an adequate presentation of the 'idea' – at a time when no higher representation (i.e., through monotheism or philosophy) was yet reachable. Greek art, because it presents God in human shape, is characterized as an art-religion. Before this time, the forms which were used were symbolic (i.e., animal symbols, imagined beings such as in Egyptian sculpture) because humans supposedly did not have an articulate vision of the absolute as something sublime. That is, the cosmic spirit was a force which could not yet be fathomed by human beings.[124]

In the monotheism (particularly Christianity), which succeeds classical Greek religion, art is no longer conceived as the preferred medium for the realization of *Geist*. As Schaeffer and Taylor explain, for Hegel, art as a sensuous manifestation can never adequately

reflect a cosmic subject which is fundamentally *logos*. In Christianity, the unity of the trinity (Father, Son, Holy Ghost) as a higher form of the absolute cannot be adequately manifested in a work of art; rather it has to be inwardly understood as discourse. In this new stage of development, spiritual content has become too rich to be realized in the sensuous form of beauty. Thus, in its final romantic phase, the arts are freed. They have been superceded by a superior form of representation – religion – which will in turn be supplanted by philosophy. With the advent of the romantic phase, art is able to portray the subjective and contingent. It can give itself over to fantasy and the outputs of particular artists can gain stature as great art. But romantic art is also less relevant since it is no longer the primary "revealer of deep truths," rather it expresses, artistically, a content that has been more fully developed elsewhere.[125]

The canonical arts, which Hegel's fixed as architecture, sculpture, painting, music and poetry, are viewed as roughly corresponding to this historically necessary pattern. All of the canonical arts are present in each of the three art forms, but different arts are emblematic of different phases. For example, architecture is aligned with the era of symbolic art because it is strongly characterized by a detachment of meaning from sensuous realization. Sculpture, in providing a three-dimensional presentation of the gods in human form, achieves its highest expression through the classical period. Painting, music and poetry, being more inward-looking and abstract, are dominant in art's romantic phase. In the case of painting, it is seen as having a lower degree of materiality in comparison to sculpture and, therefore, as more adaptive to the expression of subjective interiority. While acknowledging that little is known about ancient Greek or Roman painting, Hegel nonetheless supposes that the achievements

of the Christian Middle Ages, and especially the sixteenth and seventeenth centuries, were far greater than painting in antiquity. In this way, historical facts are either made to fit Hegel's conceptual history or they are dismissed as peripheral to the true historical meaning of things. Also, within this conceptual system, poetry, because of its potential for descriptive clarity through language, is given the highest standing. Poetry marks the point where romantic art is ready to move over into representation. As Hegel put it: "Poetry is the universal art of the spirit which has become free of itself."[126]

In summation, Hegel, in his *Aesthetics,* provides a far more rigorous treatment of art as a philosophical concept than any of his Romantic predecessors. One cannot help but be impressed by the formidable inclusiveness of Hegel's construction, his ability to combine the seemingly un-combinable and, through it all, his ability to maintain the coherence of his overall vision. *Aesthetics* is one of the great texts in the whole of the Western philosophy of art. Its originality lies not in its contention that art is a source of ontological truth (although this is a crucial supposition carried forward from the Romantics), but rather in the reconciliation of the arts with pure philosophical thought as embodied in Hegel's historical-systematic theory of art. Artistic expression is a manifestation of some higher order of self-realization of man to other men and within nature. Philosophy becomes a meta-discourse of art and, at the same time, a kind of truth more fundamental than art. The work of art is described as a point of synthesis of the sensuous and the spiritual, and of the particular and the universal, which through its own inner necessity is capable of revealing deep truths about human existence. For its part, philosophy is given domain over understanding the essence of this ontological vision as part of a necessary, internal historical development. In other

words, the fine arts are given their own inner history which they must fulfil as their part in the evolution of absolute spirit. They are given a central role in the larger scheme of man's self-realization as part of a cosmic spirit, even if it is a waning influence.

Hegel's system combined a historical conceptional framework with an intensive study of the canonical arts which, because of its underlying determinism, nonetheless provided a basis for the reduction of the arts to a generality – that is, as a philosophical conception of art as a form of ontological knowledge. After Hegel, and in particular under the influence of Schopenhauer and his successors (i.e., Nietzsche, Heidegger), it seems there was no longer any obligation to explore the heterogeneity of the arts. Historical, extensive study of all the arts was replaced with a predilection for singular meditations on outstanding works in one or two artistic domains from which generalities were drawn. Art was increasingly treated as independent from the multiplicity and variability of its own material content. As Schaeffer points out, "through such a procedure, speculations on Art as an unspecified generality inevitable become more prevalent and also more reifying."[127] As a philosophical concept, the idea of art became ever more cut off from the deep and tangled roots of its own social-historical developments. The theory of art increasingly became its own subject.

In Hegel's system, this historical-determinist mission is retrospective. It is in the past. However, under Modernism the notion that art has its own internal historical finality, which has meaning beyond Hegel's bad transitory world, became a grand artistic project. The past became the first step in a future evolution which was yet to be fully discovered. This new mission within the visual arts became the modernist search for the inner essence of art. Attaining the ultimate goal of the realization of art's inner essence became a motivating

factor for successive artistic movements from post-impressionism to futurism, from expressionism to minimalism.

This cursory discussion of the roots of our modern notion of art draws on several of the formative discourses within the Western aesthetic tradition. Kantian aesthetics, the German Romantics and Hegel's theory of art, arguably, directly or indirectly, lay the foundation and skeletal structure for much of the philosophical discourse and art criticism of the nineteenth and twentieth centuries.[128] A central proposition of these theories is that art as a form of intuitive knowledge is capable of manifesting a deep ontological truth, and that only philosophy can provide an understanding of this inner essence. Along the way, this speculative theory of art has come to encompasses a number of key postulates which have profoundly shaped our modern relationship with art works, in particular with respect to their valuation as unique product of human genius – that is, as something which is totally distinct from other aspects of prosaic life and which, somehow, has access to the fundamental expression of our being.

The work of art, as a manifestation of a philosophical conception, was given an intrinsic value – that is, its aesthetic value was effectively separated from its usefulness as a form of social-cultural expression. Arguably, this movement in the re-definition of art, which among other things accentuated rarity and uniqueness, set the stage for the art works further integrate within a modernizing capitalist market system. In the context of a modern market for visual art works, the philosophical justification of the quasi-sacredness of art and, concomitantly, of the artist as 'creative-genius', have played an formative role in turning authentic works into 'priceless' commodities and lucrative investment assets. Building on

the notion that it is our very idea of art which is the source of an individual works economic value, the next two chapters further explore the evolution of a modern art market and the changing relationship between the social-economic identity of art, market price and the potential for capital gain.

CHAPTER 5

TASTE, PRICE AND AUTHORSHIP

> At the moment when the artist thinks of money, he loses his feeling of beauty.
>
> Denis Diderot[1]

> 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.
>
> Pierre Auguste Renoir[2]

> The art lover today looks upon the painting in exactly the same way as a share of stock. It's disgusting to belong to a guild that has fallen so low!
>
> Camille Pissarro[3]

Making comparative observations on the relationship between aesthetic value, of which authorship has become a surrogate, prevailing tastes and economic valuation is difficult. Investigating the historical record can be challenging given the paucity of price data, the complexity of understanding patterns of tastes today, not to mention hundreds of years in the past, and, as we have seen in the previous chapter, the intricacy of the changing idea of art itself. For eighteenth-century Romantics like Diderot (1713-1784) and late nineteenth-century painters like Pissarro (1831-1903) suggesting that economic and aesthetic value are linked, through prevailing tastes and the marketplace, was to debase the true meaning of the artistic endeavour. In contrast, other artists like Rembrandt (1606-1669) and

Renoir (1841-1919) seemed to hold a more pragmatic, market-driven view on the matter. Renoir, who unlike some of his Impressionist contemporaries (e.g., Claude Monet (1840-1926), Edgar Degas (1834-1917)) depended on the sale of his paintings for his livelihood, proclaimed the salesroom as the only arbiter of the value of a painting. Rembrandt, a famous painter in his own time, reportedly purchased prints of his own pictures in an emergent secondary market (i.e., at auction) as a way of bidding up prices. These contradictory views on the role of art in the marketplace are not uncommon following the rise of painting from a mechanical to a liberal art and the subsequent sacralization of the arts under the influence of late eighteenth and early nineteenth-century Romanticism. The objective here is not, necessarily, to take sides in this debate, but rather to take a closer look at the evolution of the business of art itself.

By way of an introduction, the life of Rembrandt Van Ryn provides us with a perspective on our early modern art market. Rembrandt's prolific production of self-portraits has been linked to the nature of supply and demand in seventeenth-century Holland. Most artists painted one or two self-portraits, whereas Rembrandt produced dozens. As the Rembrandt Research Project suggests, it was not vanity that drove the painter to produce these works but rather a burgeoning market wherein possessing a self-portrait of a famous painter was seen as a sign of wealth and social prestige. Not only did the customer own a picture by a well-known painter, a self-portrait suggested a personal relationship (i.e., portraits of the artist were often bought directly through the master's atelier). It is now known that Rembrandt and his students retouched paintings and sometimes changed the dates on self-portraits to make them appear current. Moreover, apprentices often finished or repainted

pictures in order to keep them in step with changing tastes. For example, recent restoration work on a picture of a Russian boyar revealed an early self-portrait of Rembrandt which had obviously gone unsold. Also, Rembrandt's workshop sometimes turned commissioned portraits of women, which for whatever reason were not picked up, into biblical pictures.[4] It is important to note that the master-apprentice approach to producing pictures was part of the workshop system of the time, wherein painting was still treated as a craft to be taught through the practise of doing (i.e., versus through some type of formal schooling or conceived solely as the bounty of genius). As the Rembrandt Research Project helps to document, pictures executed by apprentices in Rembrandt's style, or pictures that were only partially painted or set-up by the master, had a market value as copies. In retrospect, while the experts of today judge that Rembrandt did some of his best work in the last decade of his life, by this time his style had fallen out of fashion. The master painter, who had been forced into bankruptcy by creditors, died a poor man.[5]

In Rembrandt's time, as in today's art market, pictures that fell from fashion also fell in price. But, while by the first half of the seventeenth century an economic distinction was already being made between an original work and a copy, it is arguable that the inventiveness of originality was not, yet, consistently treated as a contribution to value made by 'genius'. Rather, inventiveness was still associated with outstanding craftsmanship and the talent that produced special works was, as in previous times, rewarded with higher payment. Research shows that, in the second half of the seventeenth century, originals sold for two or three times the price of a copy when the same master produced both versions. Price differentials could be greater when the copy was made by a lesser master or by an unknown painter. However,

it does seem that the general rule of thumb was a price ratio of two or three to one for a named original versus a picture with no attribution.[6] It is not until the early-to-middle part of the seventeenth century that artists' signatures became more commonplace, and an accepted sign of quality by consumers. While prices for original paintings of accepted masters appear to start to rise in the eighteen hundreds, albeit somewhat unevenly, it is arguable that the shift in association from the product of 'skilled craftsmanship' to the 'creativity of genius' would take some time to work itself out. The widening gap between the contribution to economic value made from 'genius' versus 'skill' would become more obvious by the late 1890s and early 1900s.[7]

Gerald Reitlinger in the introduction to Volume II of his landmark study *The Economics of Taste* makes several interesting comparisons which shed light on this shift in the underlying basis of value. First, the rising price of paintings from at least the mid to late eighteen hundreds onwards bears little relation to changes in the cost of living, but rather has more to do with the accumulation of wealth in the hands of individual buyers coupled with the rising liquidity of the financial system. That is, in the previous century, wealth was still predominantly held in landed assets (e.g., great estates). What one sees with the advancement of industrial capitalism and international trade is a dramatic increase in the circulation of 'ready-money' and the use of 'wealth-as-capital' through the accumulation of productive assets and a maturing financial system (e.g., debt financing, government bonds). In comparison to the 1760s, the cost of living at the turn of the twentieth century had more than doubled, whereas the price of some of the very best paintings had increased a thousand-fold. As Reitlinger notes, in the first period £1,000 would have been a very good price for a

picture and £7,000-£8,000 an exceptional one. In contrast, in 1914, the Tsar of Russia paid £310,400 for Leonardo da Vinci's (1452-1519) *Benois Madonna* (i.e., about £15.5 million in 2002 values).[8]

Second, rising prices are related to changing tastes. Underscoring the importance of preference was a shift away from an evaluation of quality based on painstaking craftsmanship and the expense of materials (e.g., the number of figures in a picture, the use of gold leaf or rare colours) towards a new appreciation for the perceived 'genius' of a painter regardless of any cost-of-production considerations. This change is, in part, reflected in a shift in the relative valuations of *objets d'art* (e.g., tapestries, fine furniture, fine silverware, etc.) and paintings from the late seventeen hundreds to the early part of the twentieth century. As Reitlinger highlights: in the late seventeen hundreds, the furniture budget of the French Court far outstripped the valuation of the best collections of Old Masters of the time (e.g., the Houghton and Orléans collections);[9] in the 1850s it was more "common to spend £4,000 on a new service of porcelain ... than on an old master painting"; in 1880, only half a dozen pictures had earned £10,000 or more apiece since the beginning of modern collecting, whereas antique silverware and tapestry panels were being sold for three or more times this price. Indeed, based on Reitlinger's research, at this time the most expensive painting was Estebán Murillo's (1617-1682) *Immaculate Conception* bought by Napoleon III in 1852 for £24,600. By the late eighteen hundreds, all this started to change. As Reitlinger puts it: "This was the first time that the estimation of "genius" really kept pace with the estimation of craftsmanship."[10] In 1884, the British government paid £70,000 for Raphael's (1483-1520) *Ansidei Madonna*. In 1887, Ernest Meissonier's (1815-1891) *Friedland* sold for £13,500,

then the highest price ever paid for the work of a living artist; and, in 1890, a work by the painter Jean François Millet (1814-1875) reportedly earned £48,000. In 1901, J. Pierpont Morgan purchased the Raphael altarpiece, the *Colonna Madonna*, for £100,000, outstripping the price he reputedly paid, around the same time, for a gold ground tapestry panel (i.e., £65,000 - £72,000). [11]

The valuation of the works of notable painters appeared to undergo a fundamental change. Rising relative prices, beginning in the late eighteen hundreds and early nineteen hundreds, are taken as an indication of an underlying social-cultural transformation coming to economic-material fruition. As Modernism itself gained momentum through the first quarter of the twentieth century, the gap between the value of 'skill' as opposed to 'genius' only continued to widen. The American robber barons, who were the great *fin du siècle* collectors of Old Masters, *objets d'art* and medieval and ancient artifacts, would have surely found it absurd that modernist paintings, which seemingly took a day or less to create, were already selling for thousands of dollars by the 1920s.

The purpose of this chapter is to trace the evolution of our modern art market, in particular the development of key market structures, changing patterns of supply and demand, and the nature of price. The approach is descriptive. More precisely, the chapter provides a series of vignettes on the evolution of a modern art business, beginning with key developments in the Italian Renaissance city-state, then turning to the Golden Age of the Dutch United Provinces, the growth of a British market and, finally, Paris and the rise of Impressionism as the first major modernist movement. It concludes with a brief description

of the structure of our contemporary art market. Throughout, an effort is made to provide data on the comparative prices of paintings.

Clearly, many social-economic factors have contributed to the development of our modern art market and the phenomenon of rising prices for rare paintings some of which, such as increasing incomes and wealth, are seemingly more apparent than others. The influence of other less tangible considerations, such as our underlying idea of art itself, are far more difficult to ascertain. However, while no hard and fast causal relationship can ever be proven between the changing idea of art as the product of human genius and the dramatic rise in prices for tangible art works, this does not mean that the one did not affect the other. Fundamentally, it is a matter of the social-economic identity of a product (i.e., what is it, what does it do, why do people want it), tempered by conditions of supply and demand, that affects price. One can surmise that a fundamental change in our very idea of art will, necessarily, affect its identity as an economic good which, in turn, will likely interact with other factors to affect price level in the long-term. A key objective here is to provide some price data which supports this narrative.

The Business of Art in Early Modern Times

A steady stream of historical studies have been undertaken on what may be best characterized as the business of art. Martin Wackernagel's book, *The World of the Florentine Renaissance Artist*, first published in German in 1938, established a new approach to art history which stressed the "whole complex of economic-material, social and cultural circumstance" of artistic activities.[12] Wackernagel's treatise investigates the *milieu* of artistic

production at the beginning of our modern age, covering such subjects as price, patronage, and the business practices of the Renaissance workshop. Also, of particular note is the more recent work of John Michael Montias (1982) on the social economic *milieu* of artists in the Netherlands in the seventeenth century, and Iain Pears' treatise (1988) on the growth of interest in painting in England in the late seventeenth and early eighteenth centuries. The Montias and Pears studies build on Wackernagel's approach through their respective efforts to draw attention to the connections between the complex cultural, social and economic basis of tastes, price and the business of art. As well, collected works, like Michael North's and David Ormrod's 1998 edited book, *Art Markets in Europe, 1400-1800*, provide a wealth of historical information and interpretation of early art markets in specific urban centres and regions.[13] The short treatment of the findings of these and other studies drawn on below in no way reflects the depth and quality of their historical investigations. However, it is hoped that this account does provide a useful snapshot of key developments, particularly with reference to changing business practices and the vagaries of tastes and price (see table 1 in the appendix for an interpretative summary of key characteristics over several time periods and locations).

It goes without saying that the production and trade of art objects traces back to ancient times. For example, there are historical accounts of Roman auctions and dealers mainly trading in luxury and household goods, including paintings and sculptures. Through the European Middle Ages, there is little record of an art business *per se*, although numerous religious monuments and images were produced often through a communal effort and as part of church-civic patronage. But these older business practices, in particular during the Middle

Ages, were not part of an emergent capitalist market system with its reliance on impersonal relations and its notions of private property, utility and market price (i.e., versus communal property and 'just' price).

Part of the story of our modern art business can be traced to the Italian Renaissance city-state, the role of private commissions for religious and luxury items, and the growth of a trade in these goods. As Wackernagel supposes, during the second half of the fifteenth century with the concentration of wealth and power in a few aristocratic families (e.g., the Medici in Florence), private domestic patronage had gradually become a competitor to church-civic patronage. The emergence of this private patronage represented an intermingling of the religious and secular values of piety and personal fame. Wackernagel traces the evolution of patronage through seven generations of Medicis (1420-1530) – that is, from the large-scale building and public projects of Cosimo il Vecchio (1389-1464) to the collector-connoisseurship of Lorenzo the Magnificent (1449-1492), who was an acknowledged authority on design, painting, sculpting and a friend to painters and sculptors including a young Michelangelo Buonarotti (1475-1564).[14] The descendants of Vecchio and other Italian aristocrats directly employed many artisans in the production of painted panels and frescos, sculptures, altarpieces, jewellery, furniture, armour, silverware, and the lavish decoration of other everyday objects for their homes. They also purchased such objects through travelling traders who sometimes operated as commission agents (i.e., as intermediary between the consumer and the artisan). As Wackernagel surmises, the twin motivations behind the growth of private patronage were "religious devotion and the zealous Renaissance quest for fame."[15] Together these motivations worked as a competitive stimulus

among various individuals and families to commission ever more splendid buildings, monuments and other works. But, alongside these ecclesiastical and worldly purposes, there arose among a small circle of patrons a "connoisseur's appraisal and appreciation of the intrinsic artistic value ... of the formal, representational qualities" of particular works.[16] According to Wackernagel, this marked the beginning of the appreciation of outstanding artistic personalities such as Michangelo.

Painters and sculptors were still regarded as craftsmen, and many of the objects they created still played a fundamentally religious or ritualistic function (e.g., in rites of passage such as birth, marriage and death). As for the prices of artistic creations produced in the latter half of the fifteenth century, these seems to vary widely from Florentine works whose prices ranged from 20 to 40 florins to others which reportedly earned 80 to 240 florins. Here, Wackernagel draws on the research of Hanna Lerner-Lehmkuhl (1936) and highlights several likely reasons for these price variations including: panel size, complexity of composition and the cost of materials, especially expensive inputs such as gold leaf and ultramarine.[17] Research indicates that in the case of lower-priced panels, expensive materials were either not used at all or in small amounts, or they were charged directly to the patron or provided in kind. For example, Wackernagel reports the expenditures of a Botticelli (1444-1510) panel of a Madonna with two St. Johns executed in 1485 as follows: 38 florins for gold and gilding work, 2 florins for ultramarine, 35 florins as honorarium for the painter, and a special item of 24 florins for the frame.[18] Labour was one of several cost components and, in this case, it represented about one third of the total expenditure. Even with the paucity of supportive data, one can reasonably surmise that the more accomplished the master-painter or sculptor

the higher was the artist's honorarium as share of total production costs. As a point of comparison, Wackernagel estimates that house prices ranged from 100 to 200 florins and annual rent might range from 10 to15 florins.[19]

It is noteworthy that for painters and sculptures as well as other artisans, the only way to earn a living was through commissions which individually resulted in a modest net profit. These artisans often found themselves in a kind of employee relationship, bound through a contract to an exclusive occupation and paid through monthly or fixed annual provisions (i.e., monetary and in-kind payments such as room and board). Given the lack of liquidity and uncertain political circumstance, patrons often fell behind in their payments. They also often reserved the right to have a commissioned work evaluated by a third party. At this time, it is clear that the exceptional works of masters like Donatello (ca. 1386-1466) and Michangelo received higher monetary valuations (e.g., 15 to 25 percent in the case of Donatello's statues; whereas, the mature Michangelo earned much higher commissions than other artists especially from the Roman papacy).[20]

Shifting forward to a young Dutch Republic, we can clearly identify many of the key elements of a modern art business, beginning with the secularization and individualization of demand arising out of the aftermath of the Iconoclasts (Calvinist extremists) insurgence, the regularization of auctions and the appearance of professional dealers. Up until the late sixteenth century, religious, painted images and craved works dominated much of the artistic production within Dutch towns. Decades of social upheaval and destruction of religious artifacts, wrought by the Iconoclasts and the rebellion against Spanish rule, contributed to the demise of commissions by religious orders (many of which were liquidated in the late

fifteen hundreds) and communal works for churches as many towns shifted over to Protestant administration. As Montias tentatively suggests in his study of Delft, at least initially: "Private collecting, for many substantial citizens, may have become a substitute for publicly exhibited art works that had disappeared."[21] In towns like Delft, which turned Protestant in 1572, from the mid-sixteenth to the mid-seventeenth centuries there was a massive shift in demand from church orders to individual buyers in a more or less private market characterized by private commissions (including barter payment) and the sale of ready-made works through a variety of means from fairs and free-market days, to direct sales through painters' ateliers, auctions, lotteries and amateur dealers. In places like Delft, from the late fifteen hundreds onwards, the influx of migrants from Flanders brought both new skills and new demand, and contributed to rising wealth. It is also evident that a new fashion of decorating homes with pictures and painted tiles took hold. The net effect was a broadening of demand for paintings across the social strata and the classification of quality paintings as luxury goods competing with silverware, fine tapestries, furniture, mirrors, and other rare items such as tulip bulbs. During this period, while the nature of demand changed, the social organization of painters and other artisans as members of a guild system remained relatively constant.[22] In this sense, painting remained a form of craftsmanship and the ascription of artistic merit continued to rest with the social conventions of the guild system of production.

By the early seventeenth century and a period of relative political stability, art production in the new Dutch Republic was a growing concern. It is estimated that there were four times as many painters in 1620 as there were twenty years earlier. In the town of Haarlem, research shows that the number of painters increased from one per 2,000-3,000

inhabitants, in 1605, to one in 450-525, in 1635. Painting flourished in many towns across the Republic: Amsterdam, Antwerp, Delft, Dordrecht, Haarlem, Leiden, Den Hague and Utrecht. By one account, Dutch painters turned out about five million pictures in the seventeenth century.[23] Many of these painters lived and died poor. However, a good living could be made from painting if the individual had both talent and a good business sense. Many painters produced pictures for private commission as well as for the open market within their town. Some also collected and traded the works of other artists, contributing to the development of a secondary trade in pictures (e.g., Johannes Vermeer (1632-1675)). In order to practice one's craft, fine art painters along with house painters, tapestry weavers, engravers and stain-glass painters (and sometimes sculptors) needed to be a member of the Guild of St. Luke within a particular urban centre. The guild supervised the awarding of the title of master as well as the nature and duration of an apprentice's training through a master's workshop. Guild leaders could be called upon to evaluate the monetary value of a painting in cases of dispute. The guild also protected its members from excessive competition from outside the town (i.e., it had civic authority to regulate trade locally and to restrict the access of non-members or non-citizens) and supported them and their families in times of financial difficulty.

It seems that experiences differed from town to town with respect to the efforts made by groups of painters to either distinguish their status within the existing guild or to establish a parallel fraternity. For example, in Utrecht a 'college of painters' was established in 1644. In Amsterdam, a fraternity of painters operating alongside the Guild of St. Luke was created in 1653. In other towns, attempts to break away from the guild were stopped by civic

authorities.[24] As long as the guild system effectively exerted its civic power a wholly integrated national marketplace could not completely develop. However, it is evident that by mid-century the grip of the guilds was weakening as a secondary market for pictures grew stronger and cities like Amsterdam and Antwerp became known for the expertise of their professional dealers and quality of their auctions.

During the Golden Age of the Dutch Republic, a diversified market for ready-made pictures evolved alongside institutional and private patronage. As evident in the city-states of Renaissance Italy, patronage is based on a personal relationship between the artist and the client (e.g., religious or civic authority or private citizen), who commissions a particular work and usually influences its execution in some manner. In contrast, the exchange of ready-made art works, which takes place either directly between the artist and the consumer or through an intermediary such as a dealer or auctioneer, is impersonal. It is difficult to assess what proportion of seventeenth-century Dutch paintings were produced on commission, but it is clear that civic and private patronage persisted.

A form of private patronage that prospered during this time was the portrait commission. Montias points out that most newly-wedded men, with at least moderate assets (i.e., 500 guilders with one guilder equalling 20 stuivers), had their portraits painted often with their spouses. Those with only modest means (e.g., a tailor) commissioned a 'work-a-day' painter for about six guilders, whereas a well-to-do burgher sat for a master. The price of a portrait by a master varied considerably depending on the format (e.g., full or half-length) and on the extent to which the master's apprentices contributed to the work. It was also fashionable to commission copies of family portraits so that each heir could have a

picture. As Montias reports, amounts owed for portraits executed by Michiel Jansz van Miereveld (1526-1641) upon the artist's death ranged from eighteen to sixty guilders (1627-1639).[25] In addition, Montias provides us we a general idea of prices for different genres of paintings by relatively unknown painters living in Delft as well as better known artists: Christiaen van Couwenbergh (1604-1667), who painted chiefly large-scale, highly finished pictures with mythological themes that appealed to the upper class, earned 30 to 100 guilders for a painting; Jacob Vosmaer (1584-1641), who painted flower pictures, earned 10 to 15 guilders for small works and up to 130 guilders for large pieces; Johannes Vermeer reportedly earned 600 guilders for a painting with a single figure in, or before, 1663, although most of his paintings, particularly after his death in 1675, sold for considerably less (i.e., from 30 to 200 guilders); and, a Rubens' (1577-1640) painting of *Venus and Adonis* reportedly sold for 500 guilders in 1644.[26]

Comparing prices across centuries is difficult, especially given the significant differences in what is considered a minimal standard of living then and now. However, a good point of comparison is different wages and earnings from within the period itself. Examples that shed some light on relative prices include: 6.5 stuivers, the cost of a twelve-pound loaf (1620); 18 stuivers, the daily wage of an Amsterdam cloth-shearer (1633); 250 guilders, the annual earnings of a carpenter (or 18 stuivers a day) (1630s); 1,500 guilders, the average earnings of a middle-ranking merchant (1630s); 3,000 guilders, the average earnings of a well-off merchant (1630s); and, 5,200 guilders, the highest reliably attested price for a tulip bulb (1637).[27] Given these relative valuations, we can cautiously suppose that not much

had changed in terms of the general price level of art works from the time of the Italian Renaissance to seventeenth-century Holland.

As already mentioned, there were several outlets for ready-made paintings. It is reasonable to suggest that artists sold paintings directly to clients visiting their ateliers, and although the historical record is spotty on the regularity and scope of public exhibitions such events likely also provided sales opportunities. For example, exhibitions held in the court of the Prince of Orange date back to the beginning of the seventeenth century and Montias does report on two exhibits in Den Hague in the 1620s.[28] Lotteries and raffles were another method for artists, dealers and private citizens to earn money through the exchange of art works. Lotteries were a popular form of gambling by which the organizers sold lots (which exceeded the number of prizes) at a fixed price on a range of prizes (e.g., paintings, sculptures, and other goods) with an estimated overall monetary value. In addition, civic authorities appointed *venduemeesters* to operate weekly auction sales of the possessions of deceased residents as well as other periodic sales organized for the benefit of the town's people. According to Montias, these auctions were an important source of supply:

> A great deal of works of art – but chiefly paintings – passed through these sales.... I would guess from their size and frequency that they were a very important – perhaps the most important – source of supply, both for well-off collectors and for lower middle-class people buying pictures to decorate their homes.[29]

The role of the Dutch *venduemeesters* is similar to the *huissiers-priseurs* (Bailiff-auctioneers) – a group of officials who had exclusive rights to appraise and sell property left after death – established by the French government in 1556 (later renamed *commissaires-priseurs* in 1715 by Louis XIV). It is noteworthy that initially these auctions sold off entire house holdings, including paintings. It was only a matter of time before specialized auctions

for art works emerged. By the late seventeenth century, it was not uncommon for the auction organizers to produce accompanying catalogues of listed items for sales. At best, these early catalogues provided short descriptions of the works for sale with little importance attached to whether they were originals or copies (i.e., it was not until the 1740s and 1750s that French experts, such as Mariette and Gersaint, started to given more prominence to artists' names and matters of authenticity in auction catalogues). Montias' research on the art business of seventeenth-century Delft also discusses the emergence of the professional dealer (e.g., Reynier Vermeer (Delft), Abraham de Cooge (Delft), Matthijs Musson (Antwerp)). Emerging in the 1630s and 1640s, the typical professional dealer was a member of the Guild of St. Luke and most likely started out as a fine art painter or other artisan. They may have operated lotteries, participated in auctions, acted as intermediaries for clients and established stocks of paintings for resale. It was through such dealers, and their interactions with each other, that the works of different Dutch artists (as well as Italian and French paintings) became more broadly accessible to their fellow citizens across the Republic and eventually within other national jurisdictions.[30] It is not too great a leap of logic to suppose that the professional dealer started to build up an expertise as connoisseur, intermediary and ultimately arbiter of monetary value, which would eventually challenge the conventions of the guild system.

The underlying strength of the Dutch art market was the surprising diversify of its consumer base. This early modern art market was not the exclusive purview of the very rich, but rather grew out off the desire of the average merchant, professional, artisan and trades person to own pictures and, in turn, the ability of local painters to supply a range of modest

to moderately priced products. Consequently, the United Provinces developed strong sub-regional markets that supported a large number of local artists while also spurring the trade in foreign pictures. Amsterdam and Antwerp, along with Paris, burgeoned into major centres for the art trade within Europe. With the tremendous economic success of the Dutch Republic as a mercantile trading nation and the rising wealth of its citizenry, in particular its merchant class, financial speculation was also rife. Perhaps the most spectacular episode was the great Dutch tulip mania of 1633-1637. At the time, trading in the then rare flower bulb became a national passion and led to astronomically high prices (e.g., 5,000 to over 6,000 guilders for a single flower) and, eventually, a sharp sudden downturn. Some consider this affair to be one of the earliest incidents of a 'rational bubble'.[31] Trading in pictures did not reach this kind of speculative height, in large part, because paintings were an abundant commodity. Nonetheless, the auctions were very popular, attracting dealers as well as collectors, and there were examples of people bidding up prices. Rembrandt reportedly frequently overbid for pictures, paying at least double or quadruple the worth of his collection according to the dealers, Lodewyck van Ludik and Adrian de Wees. He also would buy his own prints in an attempt to sustain his market price as an artist.[32] The picture trade was a growing business and certainly dealers were motivated by profit taking. With changing tastes and fluctuations in prices, financial gains were made. However, there is scant evidence to suggest that paintings were collected as a form of investment.

Emerging almost a century later than its Dutch rival, the English art market similarly pivoted on rising incomes and a growing bourgeois class as an important source of sustained demand. But while the Dutch art business grew from a base of strong domestic supply, the

early English market relied heavily on the import of foreign pictures. As Iain Pears documents in *The Discovery of Painting*, the eighty years beginning in 1680 witnessed "the virtual invention of the English art market" as prior to this period there was "no permanently established commercial system" for the distribution of art works.[33] The trade in pictures that did exist was sporadic and depended on personal connections and international agents (e.g., as in the purchase of the Gonzaga collection (1626-1628) for Charles I).[34] While there was an apparent paucity of quality domestic pictures, the importation of foreign works was technically illegal. A restrictive importation law was initially enacted under the Cromwellians to protect English artisans (i.e., the members of the Painters-Stainers Company) from foreign competition. After the Restoration, the enforcement of the law was relaxed, but it was not until 1695 that the importation of paintings was officially legalized. The new law, which affixed a 20 percent duty on the value of imported paintings, made the importation process predictable. In 1721, the import law was eased again as the amount of the duty became dependent on the size of the canvas. This was an important change as it significantly reduced the overall cost of importing more expensive and, presumably, higher quality foreign works.[35]

As in the case of the United Provinces, auctions quickly became a popular method of internal distribution, aided initially by amateur dealers who went abroad to buy pictures for resale in England. According to Pears, the first picture auction took place in London in 1682. The method of sale by bidding was firmly established by the late 1680s, when there were reportedly four hundred auctions in the space of five years.[36] In England, the auctioneering of art works was almost from the start a privately-run enterprise. Although the

City of London (i.e., the Office of the Outroper) was technically responsible for "all public sales of good," as Pears tells us, it was never able to effectively exert its authority.[37] In the early stages of its development, the English market was quite indiscriminate both in terms of the quality of the pictures offered for sale and the degree of specialization of auctioneers themselves. As Pears puts it: "It seems to have been sufficient to have labelled a painting 'an original' or 'of genuine Italian hand' for it to have a buyer."[38] By the early 1690s, picture collecting had become a widely supported fashion and it seemed only a question of time before quality mattered as people's tastes became more discriminating. As for the auction business, a degree of specialization began to appear as it became apparent that success over the long haul required both knowledge about art works and skill as a salesman. Increasingly, different people performed these two functions and auctioneers began to demarcate the focus on their sales (e.g., quality Italian paintings, sale of an estate collection, rare manuscripts and books). Examples of eighteenth-century auctioneers include Edward Millington, Christopher Cock, Langford, Prestage and Lambe. As Pears comments, by mid-century Cock, the most famous eighteenth-century auctioneer until James Christie, was well on his way to gaining a certain degree of social reputability as well as wealth. By this time, auctioneer firms like Cock's were growing enterprises. Both Sotheby's and Christie's, which today dominant the world of fine-art auctioneering, were established in this period. Samuel Baker, the founder of Sotheby's, started his book-selling business in 1744. In 1766, Baker went into partnership with George Leigh and, upon Baker's death in 1778, his nephew John Sotheby joined the firm which was then renamed Leigh and Sotheby. James Christie started his auction business, which concentrated on pictures and furniture, in 1766. The auction house Phillips also dates

back to the eighteenth century. Its founder Harry Phillips resigned as Christie's head clerk and started out on his own in April 1796.[39]

As already suggested, the success of the English auction was dependent on an effective method of importing foreign pictures. Markedly, it was not until the latter part of the eighteenth century, with the growing popularity of portrait painting and the founding of the Royal Academy (1768), that it became more fashionable to patronize living English artists. Some notably native painters, such as William Hogarth (1697-1764), were very vociferous in their complaints that the early dealers were undermining their livelihood. In the 1670s and 1680s, there were several ways by which international paintings and English buyers were brought together. People travelling abroad for a variety of purposes (e.g., the Grand Tour, diplomatic posts and mercantile trade) collected pictures either for themselves or for family and acquaintances as an auxiliary activity. At this time, English tastes demonstrated a strong preference for anything Italian, in part because of the large stock of paintings available at relative low prices due to the economic decline of the Italian city states, in particular Venice, Florence and Rome (the Italians did have export laws but these were not well enforced). The same bargains could not be had from the Dutch Republic or France, both of which had strong domestic markets and higher prices. Another approach for the serious collector was to employ the services of an international agent operating on commission (e.g., William Petty who worked for the Earl of Arundel in the 1630s; Prosper Henry Lankrink who worked for Postmaster General Charles Fox in 1684). The agent was effectively the employee of a rich collector who was prepared to incur all the transaction costs associated with the travel of the agent as well as the purchasing and shipping of the

goods acquired on his behalf. The purpose here tended to be private consumption rather than immediate resale for an English market. Schemes where an agent worked for several clients were more problematic, for while costs could be equably shared there was always room for dispute on the quality of pictures and on who got what.[40]

As in other jurisdictions, the transition from amateur broker or agent to professional dealer took place gradually in the latter decades of the sixteen hundreds and early seventeen hundreds. It required that the agent take on the entrepreneurial risk of making international purchases based on their own judgement, of paying for the shipping and insurance of the goods and then preparing them for resale in London. According to Pears, the first amateur international dealer was Thomas Manby, an English landscape painter who acquired a large number of pictures while studying in Italy. Manby reportedly sold his collection through auction for a good profit upon his return to England in 1686. His example was followed by others (e.g., James Graham who was the first Englishman to arrange multiple sales) in the early part of the eighteenth century.[41] As Iain Pears comments:

> The central role of dealers in facilitating the expansion of interest in the arts cannot be disputed. For the rest of the century, a stream of them, initially relying on the exploitation of price differentials between England and the continent to produce their profit, followed the examples of Manby and Graham and went abroad, bought pictures and brought them back to England to sell, generally by auction.[42]

The emergence of the first full-time professional dealer (e.g., Andrew Hay, Samuel Paris, Robert Bragge) significantly reduced the complexity and risk associated with acquiring foreign art works for the English consumer. As Pears suggests, the dealer by placing the buyer in close contact with paintings allowed much greater emphasis on the conundrum of choice.[43]

In the early seventeen hundreds, there were two main categories of dealers. As discussed above, international dealers supplied the costumer directly, primarily, through auctions. In turn, these sales became increasingly important for domestic dealers who tended to be engaged in other types of artistic endeavours. Domestic dealers often operated picture shops, may have conducted or arranged for picture cleaning and sometimes employed local artists as copyists. As Pears suggests, these dealers played an important role in helping to redistribute the existing stock of pictures within England and to even out the fluctuations of supply. They also made it easier for people living outside London to purchase paintings.[44] As the century progressed, the lines of business that distinguished these types of dealers became increasingly less well-defined. There were several underlying trends affecting this evolution which were predominantly linked to the high cost and risk associated with protracted international purchasing trips and the economies of scope gained through increasing specialization within the broader art business. Due to high direct costs, dealers' trips abroad became less frequent but were conducted on a larger scale. Dealers started to move away from the bottom end of the market, focussing more on pictures attributed to recognized artists as a way of increasing the reliability of their products, charging higher average prices and, thereby, increasing profits. Their liaison with foreign dealers particularly in Paris, Amsterdam and Antwerp expanded, extending the supply network by adding a new layer of middlemen and further reducing the need for lengthy trips to the continent. Auctioneers evolved into larger-scale businesses with expertise in auction sales and became increasingly more reputable within English society. Reliable attribution became more important as a sign of quality for costumers and as a measure of the credibility of the dealer.

Consequently, the quality of connoisseurship as well as general business acumen of the dealer increased in importance. In addition, copyright and print-selling was discovered as a new line of business for English dealers, diversifying their potential sources of earnings and further accentuating the need to maintain stock (at least for short periods of time) as well as a place of business.[45]

The English art market of the eighteenth century gained its strength from the relative ubiquity, as opposed to the exclusivity, of demand. Professional dealers initially depended on the auction as a method of distribution and tended to focus on the lower to middle range of the market. The reason was strictly financial due to the greater predictability and profitably to be had in balancing the supply of a large number of modestly to moderately priced pictures sought after by most customers, against a few expensive items whose sale was much less assured. For example, 63 percent of the paintings sold by the dealer Samuel Paris were purchased for £2 to £10 a piece, whereas the £40-and-above sales bracket accounted for only 3.5 percent of the pictures sold (or 23.3 percent of the total sales revenue). Similarly, in the case of Robert Bragge, 64 percent of his paintings sold in the £2 to £15 price range and only 5.5 percent were valued at £40 or more. This is not to say that these early professional dealers did not arrange some impressive transactions. One of the most significant examples was the purchase by Peter Delmé of two Poussin's (1594-1665), *Triump of Bacchus* for £230 and *Triumph of Pan* for £252, arranged by Samuel Paris in 1741.[46] Prices for paintings started to inflate around 1740 and the potential for gains was real. For example, the two Poussin paintings bought by Delmé were resold in 1790 to Lord Ashburnham for £1,630. There were also examples where dubious attributions resulted in lower resale prices. A case in point was

the purchase for £220 of a supposed Corregio (1494-1534), by Lord Ashburnham, which was, subsequently, resold for only £28 when the attribution was called into serious question.[47] As this example shows, even at this early date, the authenticity of authorship was an important indicator of monetary worth, seemingly taking precedence over subject matter and composition.

By the late 1700s, the collection of fine art had grown into a broadly based passion among the English, and a burgeoning business for auctioneers and dealers who continued to make their money, predominantly, through the import of Old Masters. However, there is little evidence to suggest that art was considered an investment by either dealers or collectors. Price differentials between time of purchase and resale does not in itself make a convincing case that paintings were anything other than a fashionable luxury commodity. Reitlinger's investigations into the vagaries of taste among English and French collectors in the late eighteenth century seem to bare this out. Reitlinger describes this period as "an age of vigorous prejudices" where the standards of good craftsmanship were frequently given preference over the 'genius of originality'.[48] Going back to the seventeenth century, the most highly prized painters were Raphael (1483-1520), Leonardo Da Vinci (1452-1519) and Correggio (ca. 1489-1534), although it is highly dubious whether there were many authentic works by these artists available to the English salesrooms of the time. The same art audience showed a surprising indifference towards the early Renaissance pictures which actually reached their shores.

A second prejudice was evident against any Renaissance painter who was 'too free with the brush and with colour'. For example, the painter and critic Joshua Reynolds (1723-

1792) in his Royal Academy *Discourse* (December 1771) criticized the entire Venetian school. As Reitlinger comments, Reynolds spared "neither Titian [ca. 1485-1576], Veronese [ca.1528-1588] nor Tintoretto [1518-1594], who were denounced relentlessly as mere decorators, obsessed with colour at the expense of form."[49] According to Reitlinger, pictures by these great masters sold at relatively low prices well into the nineteenth century, whereas "Reynolds's propaganda" raised the prices of the eclectic works of sixteenth and seventeenth-century Italian painters such as Parmegianino (1504-1540) (who was considered a substitute for the unobtainable Correggio), Giambatista Moroni (1525-1578), and Guido Reni (1575-1642).[50]

The purchase of the Houghton collection by Empress Catherine of Russia in 1779 provides a window on the monetary valuation of the works of some of these painters. Prices for pictures were fixed by the English painter Benjamin West (1738-1820) and reflected both market bias and West's own preferences. The most expensive picture was Reni's *Immaculate Conception* priced at £3,500, followed by Van Dyck's (1599-1641) *Holy Family* and Rubens' *Magdalen Kissing the Feet of Christ,* both priced at £1,600. Prices for works by Nicolas Poussin were fixed at £900, £800 and £600; and pictures by Bartolomé Esteban Murillo (1617-1682) and Salvator Rosa (1615-1673) were set at £700. In sharp contrast, figures for pictures attributed to Venetian painters did not exceed £100. This included two paintings ascribed to Titian and three paintings credited to Veronese. Also a picture of the *Holy Family* attributed to Giovanni Bellini ©.1430-1516) was valued at only £60 (for more detail on comparative prices during this period see table 2 in the appendix).[51]

Another example of the caprice of demand was the market for Rembrandt's pictures. As documented by Reitlinger, it was French tastes that initially made Dutch *genre* painting fashionable beyond the borders of the United Provinces. At the Houghton sale, Rembrandt's *Saskia* and *Sacrifice of Isaac by Abraham* were valued at £300 a piece; half the price of a pair of flower pieces by Jan van Huysum (1682-1749) who at the time was highly rated for his skill as a master of the 'tight brush'. In the latter part of the eighteenth century, just prior to the unleashing of the Terror, prices for Rembrandt's paintings rose in the Paris market: £240 in 1763; £555 in 1776; and £685 in 1793. At this time, there was no market for his work in England, perhaps in part because of the sharp criticisms of Reynolds who, in his *Discourses*, described Rembrandt's pictures as blackened and full of 'accidental effects'. By the turn of the century, the Rembrandt market gained momentum in England, reaching a high watermark in 1811 with the sale of *Shipwright and His Wife* to the Prince Regent for £5,250. Nonetheless, the market remained highly selective. No other Rembrandt earning more than £5,000 in an English salesroom for another eighty years, and up until the 1860s the very best of his painting sold for less than £700 (i.e., only very large pictures earned higher prices).[52]

As a point of comparison, by the turn of the nineteenth century the paintings of a number of living English artists were earning significant rewards. Foremost among these painters was Benjamin West. Once again as Reitlinger's research shows, when the Empress of Russia purchased her Houghton Rembrandts for £300 each, West was paid £1,365 apiece for three pictures commemorating Edward III, and £525 to £630 apiece for five other paintings as part of the same royal commission. Similarly, Reynolds received £1,400 in 1779 for a picture of the holy family, and £1,575 in 1786 for *Infant Hercules, Struggling with*

Serpents (a work commissioned by Empress Catherine of Russia).[53] At this time, it was the norm for the prices of a deceased painter to decline. The works of living artists were just more current, which, by and large, made them more fashionable and exploitable by a burgeoning print-sellers business. That is to say, from the early beginnings of a English art market to the turn of the nineteenth century, there was something of a reversal of taste from a strong preference for 'anything Italian', towards a deepening and diversification of tastes marked by an emerging bias for new works. To put it another way, contemporary paintings, with popular appeal, seemed to rate higher than the originality of the past. As Reitlinger surmises, the 'genius' of many past masters was not an easily "marketable commodity" in the English art market of the late eighteenth and nineteenth centuries.[54]

From Old Masters to Impressionist Watershed

By the eighteenth century, key elements of a modern art market, such as the auctioneer and professional dealer, were in place. Fine art painting was increasingly acknowledged as a liberal art and the accomplished painter was held in high regard. Academies of art were well established in several European centres. Most notably in the French market, the academy became an intermediary between the producer, the consumer and the market. It played a particularly strong role in Paris which was one of the leading art markets of the time. In a sense, the academy in Paris replaced the guild system as an arbiter of value, providing a basis of accreditation for living painters and a canon of quality for collectors.[55] Connoisseurship also improved. French dealer-experts like Pierre II Mariette and Edme-François Gersaint, and later Pierre Remy, enhanced the quality of auction catalogues

by providing more detailed information on authorship, providence and aesthetic appreciation.[56] While others, such as Jean-Baptiste-Pierre Lebrun, rehabilitated the reputations of forgotten or previously under-appreciated painters (e.g., Hans Holbein, the younger (1497-1543), Jusepe de Ribera (1591-1652), Louis Le Nain (c1600-1648)).[57] These French dealers, in effect, built themselves up as authorities on authenticity, particularly in relation to the works of the past. The passion for collecting grew as people continued to consume art works for their pleasurable effects, for decorative purposes and as a signifier of moral rectitude and social prestige. By one estimate, the number of French collectors increased from one hundred and fifty in 1700 to five hundred between 1750 and1790.[58] However, the strong performance of the mid-to-late eighteenth century was no guarantee of future market stability or upward price movement.

Beginning with the French Revolution, the long nineteenth century was wreaked by political upheavals, economic turmoil, scientific discoveries and dramatic technological advancements. The adolescent art markets of Europe were not spared. By the early twentieth century, it would become clear that much had changed. In some respects the most stable market, at least until Paris regained its strength in the 1870s, was England. But the market lacked dynamism, in part, because its scene seemed to be dominated by living art at the expense of the old. After the initial excitement generated by the 1798 auction sale of the Orléans collection, and the influx of aristocratic collections from the continent following the French Revolution and Napoleonic wars, the markets for Old Masters, Italian, Dutch and French pictures seemed to stagnate. As Gerald Reitlinger comments:

> Till the Marlborough sales of 1884-1886 the best of Rubens and Van Dyck failed to exceed the prices of the Napoleonic wars. Rembrandt and Titian fell miserable, the favourite seventeenth-century Italian painters were seldom in demand, Claude and Poussin hardly ever. By contrast Italian primitives rose steeply in the 1840's, Dutch seventeenth-century *genre* and landscape paintings went up in the 'fifties and 'sixties and Murillo had a frenzied vogue which extended from the 'thirties to the 'seventies. *But none of these movements of fashion gave any real indication that the great masters of the past had become rarer [italics added].*[59]

The mediocrity of the English market for older art works was related to several factors. First, the growth of the engraving copyright business, particularly from the 1840s to the 1870s, resulted in rising prices for the pictures of living artists at the expense of the works of deceased painters. This print-selling business worked something like this: a dealer-print seller (e.g., Ernest Gambert, Colnagi and Agnew) purchased the latest picture of a living artist, along with the copyright, for a significant price which in itself added to the notoriety of the painting; the picture was then sent on tour, generating publicity and revenues from entrance fees; engravings were made and prints sold to consumers; eventually the original painting was resold either privately or at auction. This business was a tremendous commercial success both for the dealer-print maker and the living artist. In the 1840s, the most popular English artists could make £5000, or more, from a single commission (this is roughly half a million dollars in today's terms).[60] Another aspect of this business was the popularity of illustrated books whereby living artists were commissioned to produce paintings which were then turned into engravings. The fashion at the time was for new works never before seen and several living artists (e.g., William Holman Hunt (1827-1910), Rosa Bonheur (1822-1899), William P. Frith (1819-1909), John Everett Millais (1829-1896), Dante Gabriel Rossetti (1828-1882)) took advantage of the opportunity.

Second, connoisseurship, while improving, was still underdeveloped and many dealers and collectors found themselves the owners of school pieces rather than master

originals. The practice of working with apprentices, of working in another master's style and of copying other pictures was commonplace from the time of Titian to Rubens through to Reynolds and other nineteenth-century painters. The inability of amateur critics, dealers and auctioneers to consistently distinguish these differences damped demand. The third factor was that, as Reitlinger puts it, the 'dark masters' fell from fashion. Buyers of paintings wanted contemporary subject matter (e.g., war scenes and proto-Victorian age heros like Wellington) and brighter pallets. These preferences also meant that the distinctive artistry of someone like John Constable (1776-1837) was not very fashionable. Indeed, the work of his imitators seemed to be more appreciated (e.g., Callcott (1779-1844), Stanfield (1793-1867)).[61]

The gradual market rebound of the late eighteen hundreds represented another shift in direction. The engraving-copyright business went into decline with the advent of photography and, as a consequence, the market for the new works of previously prominent living English artists (e.g., Pre-Raphaelites such as Millais) also tended to diminish. English dealer-printers such as Colnagi and Agnew, in order to survive, had to refocus their efforts on the sale of original paintings and other *objets d'art*. The most successful dealers learned to cultivate a cadre of wealthy collectors, to make better use of, and promote, art historical scholarship and to broaden and deepen their stock of art works. In a way, the demise of the print-selling business helped to refocus attention on the uniqueness of painting and the importance of originality and authenticity in assessing quality. By the end of 1890s, one of the best-known dealers to successfully master this business model was Joseph Duveen, who smartly augmented his own talents for salesmanship by engaging a young art scholar,

Bernard Berensen.[62] In general, art-historical scholarship improved as a new generation of art dealers and experts were better equipped to distinguish school piece from original, to research providence, to attribute historical significance and to ascribe an aesthetic evaluation as well as a market price. These efforts helped to create value in the market by discreetly increasing consumer confidence in the assessment of the authenticity of authorship, the 'degree of uniqueness' of individual works and, more broadly, in the desirability of collecting older paintings. In other words, this new generation seemed to inherently understand the importance of forging a strong correlation between aesthetic and monetary valuation. At the same time, the introduction of the Settled Lands Act of 1882 in Britain dramatically increased the supply of quality Italian, Dutch and French Old Masters paintings in the market.

The Settled Lands Act was designed to alleviate the financial crisis of the great English estates wrought by the import of low-priced American grain. It allowed the families to sell off assets which by law had been held in trust from one generation to the next. With the permission of the Court of Chancery, family heirlooms could be sold to help maintain estates provided that the land and houses remained in trust. As a result, many aristocratic collections built up since the time of Charles I came onto the market (e.g., one of the most famous was the 1886 sale of the treasures of Blenheim Palace).[63] To put it another way, more great pictures came onto the market between 1882 and the First World War than at any other time since the great sell-off and plunder of the Napoleonic wars. These changes took place within a relatively short time frame and, arguably, would have had more limited impact if not for the influx of a new group of very wealthy buyers who were prepared to pay 'whatever

it took' to own rare originals. While the House of Rothschild, the Berlin museum and Isabella Stewart Gardner may have led the way in the 1870s and 1880s, some ten years later American millionaires like J. Pierpont Morgan, P.A.B. Widener, Benjamin Altman and Henry Clay Frick formed a powerful group of buyers driving up prices.[64]

There were a number of proclivities that took hold of the art market at this time and some have subsequently proved to be long-term trends. First, the works of dead masters of proven authorship started to become dominant; and second, price levels increased dramatically, outstripping anything seen in the past. With the exception of Ernest Messionier whose work *Friedland* sold for £13,500 when he was seventy-two, living artists no longer earned the leading prices. In the 1870s, £500 to £1,500 was a reasonable price for a quality picture and the prices of the best pictures were only starting to surge. By the early 1900s, quality pictures were going for two to three times this price range and the very best pictures were going for tens of thousands of pounds. As Peter Watson comments, while most prices were below today's levels in real terms, they were far from immaterial. Pictures regularly sold for the equivalent of six figures in pounds sterling and American dollars. Da Vinci's *Benois Madonna* and Gainsborough's *The Blue Boy* to this day rank among the top ten highest prices ever paid for Old Masters (see table 3 in the appendix).[65] In terms of what was fashionable, several market segments dominated the scene, including: nineteenth-century French painting (i.e., the Barbizon School (e.g., Jean-Baptiste-Camille Corot (1796-1875), Henri Rousseau (1844-1910), Jean-François Millet (1814-1875)), Ernest Messionier), Italian and select Spanish Old Masters (e.g., Leonardo da Vinci, Raphael, Botticelli, Velázquez (1599-1660), at least until the early nineteen hundreds the Venetians retained secondary

status), Dutch paintings (e.g., Rembrandt, Van Dyck, Hals, Holbein, Hobbema (1638-1709)), and eighteenth-century English paintings particularly portraiture (e.g., Thomas Gainsborough (1727)-1788), Edwin Landseer (1802-1873), George Romney (1732-1802), Thomas Lawrence (1769-1830), Joseph Turner (1775-1851)). With a few exceptions (e.g., Messionier, Landseer, some of the Barbizon School) much of this art remained the dominant fashion of salesrooms into the late 1920s (see table 4 in the appendix for a sample of some of the highest prices paid at auction from the 1880s to the beginning of the First World War).[66]

It is arguable that this period, from about 1890 to 1914, set the pattern for today's art market. In terms of price, it set in motion a long-term growth trend which, while interrupted by the economic uncertainty of the Great Depression of the 1930s and two world wars, continued relatively unabated from the late 1950s to current times. In terms of an underlying basis of economic value, this became intertwined with the idea of the 'genius of originality', which was, in turn, made nominal through the authenticity of authorship and 'degree of uniqueness' of an artwork within the market. That is to say, the scarcity of the unique product of human genius combined with rising wealth and the emergence a new group of collectors led to rising prices in real terms. Closely linked to the ascendancy of the idea 'genius' was the gradual legitimization of non-mimetic art and the emergence of a market for its first significant movement.

Demand for the major Impressionists and Post-Impressionists was virtually non-existent in the 1860s. Impressionist canvases typically sold for under 100 francs (or just over 4£). For example, Pissarro and Sisley (1839-1899) received 20 and 40 francs for their works

in 1868, while in the next decade Manet (1832-1883) sold many of his canvases for between 210 and 800 francs (although he did make a sale for 3,000 francs as early as 1870, and 7,000 francs in 1873).[67] As Peter Watson surmises: "It seems likely that at times ... some of the Impressionists were lucky to earn 1,000 francs a year."[68] However, by the late 1880s a market, albeit a small one, established itself with "upward fifty transactions involving Impressionist works every year."[69] Widely reviled by the then-established art world, this new art was dependent on a new breed of dealer-entrepreneur and a new stock of collectors interested in experimentation and attuned to incipient modernist sensibilities. It was not until the beginning of the twentieth century that the Impressionists and Post-Impressionists began to make in-roads into the mainstream market. Once they did the trend line was set on a steady upward track. As Reitlinger commented in the early 1960s, the sustained preeminence of this group of artists was "a thing which has never happened to any school of painting."[70] Based on Reitlinger's compilations of price data, we can see that the rise in monetary worth of these works was moderate, but as early as 1912 their prices were showing signs of acceleration. For example, Manet's *Olympia* sold for £400 in 1884 and £774 six years later. By the late 1950s, his painting *Rue Mosnier aux Drapeaux* earned £113,000. Similarly, Renoir's *Moulin de la Galette* sold in 1899 for £420, and less than ten years later his *Charpentier et Ses Enfants* was reportedly purchased for £3,500. There were some strong prices for select paintings by Renoir and other Impressionists and Post-Impressionists in the inter-war years, but their market really started to gain strength in the 1950s. For example, a Cézanne (1839-1906) painting, *Apples and Biscuits*, reported earned £33,700 in 1952, van Gogh's (1853-1890) *Public Gardens at Arles* sold for £132,000 in 1958, and Renoir's *Les Filles de*

Durand-Ruel was purchased for £91,075 in 1959 (see table 5 in the appendix for sample prices, 1880-1959).

Impressionism and Post-Impressionism not only set in motion a revolution in terms of artistic sensibilities, it marked a turning point in the monetary valuation of art. It set a pattern for new art movements and price advancements which would continue throughout much of the twentieth century. Moreover, a tendency for pictures to be purchased as a speculative venture, which was perhaps most clearly illustrated by André Level's *La peau de l'ours* (1904-1914), became much more pronounced, particularly in good economic times.[71] New art still rose and fell from fashion. But, once an artistic movement and an individual artist gained name recognition through the secondary market then rising prices became almost assured. The stock of a notable artist now tended to increase significantly following his death as the supply of his works became finite. And, although this would take some time to make itself apparent, a significant corollary of rising price levels was that the works of notable artists could no longer be viewed strictly as durable luxury goods, but started to be appreciated as potential investment assets. In short, beginning with the Impressionists and Post-Impressionists, the market, supported by the various institutional structures that grew up around it, became the clear arbiter of value.

Unlike any other time in our modern era, this group of living artists had to rely directly on the marketplace without any other intermediate structure for support (e.g., religious patronage, the guild system, the Academy). The French system of art academies, led by Paris, propagated a prescribed standard of beauty and good taste; and, in the eighteen hundreds, under the leadership of Ingres (1780-1867), placed historical pictures and the

classical style at the pinnacle of high art. With its authority strengthened by Napoleon, the Academy regulated the training and recognition of artists. For the consumer, the Academy offered a sort of guarantee of quality for the works of artists who followed its ascribed aesthetic doctrine. For the living artist, Academy membership meant the possibility of artistic and financial success in one's lifetime. Artists, who were trained through the official system, and then became members of the Academy, regularly participated in its juried Salon exhibitions and won favour through the award of official prizes. By being a member, artists greatly increased their chances of receiving valuable commissions, of having their works sold through established art dealers, of selling their works to dealer-print sellers and of increasing their popularity with mainstream French collectors. As Raymonde Moulin tells us in her sociological study of the French art market, the careers of these approved living artists "were not unlike those of senior government officials, and their paintings enjoyed the favor of the *grande bourgeoisie*" (encompassing successful legal and medical professionals, bankers, leading industrialists and businessmen as well as senior government officials).[72] Similar to its contemporary English art scene, top painters maintained a bourgeois lifestyle and, in the early 1870s, their pictures sold from around 10,000 to 20,000 francs apiece (about £380 to £775 based on an estimated exchange rate of 25-26 francs per 1£).[73] As a point of comparison on relative values, senior government officials in France earned about 20,000 francs a year. And, as an art dealer with Boussod & Valadon, Théo van Gogh earned an annual salary of about 7,000 francs.[74]

The new art of the Impressionists, led by Manet, had to gain recognition outside of this official system and, in some respects, in competition with it. As the expression of a new

artistic sensibility rejected by the established order, the work of this group of artists needed to be authenticated as possessing artistic merit and as being desirable to collect. Rejected by the Academy, it required a new aesthetic and an alternative means of gaining social recognition and prestige as quality art. With their pictures regularly turned down and ridiculed by the official salon, the artists themselves tried to gain market exposure by organizing anti-establishment groups and by staging their own private shows and auction sales (e.g., *La Société Anonyme des artistes, peintures, sculpteurs, graveurs*, which included Edgar Degas, Paul Cézanne, Félix Braquemond (1833-1914), Armand Guillaumin (1841-1927), Claude Monet, Berthe Morisot (1841-1895), Camille Pissarro, Pierre-Auguste Renoir and Alfred Sisley, held its first exhibition April 15, 1774).[75] They recognised that their social prestige as painters hinged on the market success of their paintings. In Paris, they gained the support of prominent members of the French literati (e.g., Charles Baudelaire and Emile Zola in their support for Manet) who provided the beginnings of critical acclaim. And, importantly a new breed of art dealer-entrepreneur broke away from the established order and created an alternative distribution network for the new art by cultivating the interests of a new stock of collectors in France, Germany, Russia and America (e.g., Sergei Shchukin and Ivan Morosov in Russia; Cassirer brothers, Oskar Schmitz, Gottleib F. Reber, and Count Kessler in Germany; Emile Zola, Gustave Caillebotte, Dr. Gachet and Théodor Duret in France; Gertrude and Leo Stein in Paris, John Quinn, the Havemeyers and Lillie P. Bliss in New York, Dr. Albert Barnes in Philadelphia).[76]

Initially, with only a narrow base of demand in any one major urban centre, the dealer's objective was to create a market that was international in scope. These dealer-

entrepreneurs tended to work independently, collecting and trading the works of relative unknown artists, while at the same time promoting the merits of a new modernist aesthetic which their artists' works heralded. As exemplified by Paul Durand-Ruel, a key aspect of the new business approach was to find ways of controlling the supply of paintings not yet in demand (e.g., buying up stock directly from the painter and using exclusivity contracts) and then championing the 'genius' of the artist with a few critics and a narrow circle of unconventional collectors. In seeking to monopolize a painter, the dealer aimed to create a growing market for the artist's works, gradually increasing prices and ultimately making a good return on the initial investment as the prestige of the artist rose and demand deepened. A key objective was to build a sort of 'brand name recognition' for individual artists and for the dealer himself – that is, by associating himself with leading progressive artists and in consistently linking his artists with innovative styles representing the latest modernist trends.

This approach, of betting against prevailing tastes and for a new aesthetic, in many ways laid the foundation for the art market of the twentieth century. It represented an embracing of the latest style or school. It sowed the seeds for greater price speculation and the antecedent for the consideration of art as investment. And, through the promotion of a new aesthetic that would stretch and reshape the definition of art, it enhanced the prospects of the further re-evaluation of past art and the expansion of the whole of the art market. The art dealer, the art critic and other new art experts (e.g., professional art historians and museum curators), working within the market structure, took over as the key sources of authority as to the authenticity and originality of an art work. To reiterate, the key underlying transition was that the evaluation of the latest, as well as older art works, became much more

clearly and purposively associated with the demonstration of artistic innovation and by extension the notion of the 'genius of originality'. Within the marketplace, these aesthetic considerations became synonymous with the authenticity of authorship, the 'degree of uniqueness' of a particular work and a type of brand recognition. For the living artist, the role of the dealer was to add value to his stock as a 'creative genius' among a growing group of serious collectors. In a sense, modernity and the freedom of the market finally won out over the defenders of tradition and the dominance of any official civic system of artistic production and distribution. That is, in order to 'make it' as a notable artist of lasting quality, success in the market became paramount.

In France, the demise of the old Academy happened quickly. In 1881, the Society of French Artists took control of the Salon from the government. Within another three years a Society of Independent Artists was founded which staged an annual exhibition without jury and with the expressed objective of making "it easier for artists to present their works freely and directly to the public for judgement and sale."[77] By the early nineteen hundreds, with the growing success of the Impressionists and Post-Impressionists and the emergence of the next generation of modernist painters, the general lessons learned by the art business was that innovative art paid and that market actors (i.e., dealers, critics, art historians and other art experts, auction houses) could play a significant role in creating market value through the promotion of new aesthetic canons, the cultivation of tastes and the matching of limited supply with a select group of wealthy collectors. As Raymonde Moulin maintains:

> The innovative artists ... won the fight that had raged, ever since Courbet, against the absolute authority of the official Salon. But no sooner was independence acquired than it was compromised by the market system.... As the market became increasingly rationalized and efficient, it also became increasingly oppressive to artists because the profit motive took priority over all other considerations.... For the past century aesthetic and commercial values have become ever more closely intertwined.[78]

In a sense, the 'Moderns' finally won out over the 'Ancients' in the art of painting, and the mechanism of the market soundly imposed its rationale on the production and distribution of art works.

A Hierarchy of Markets

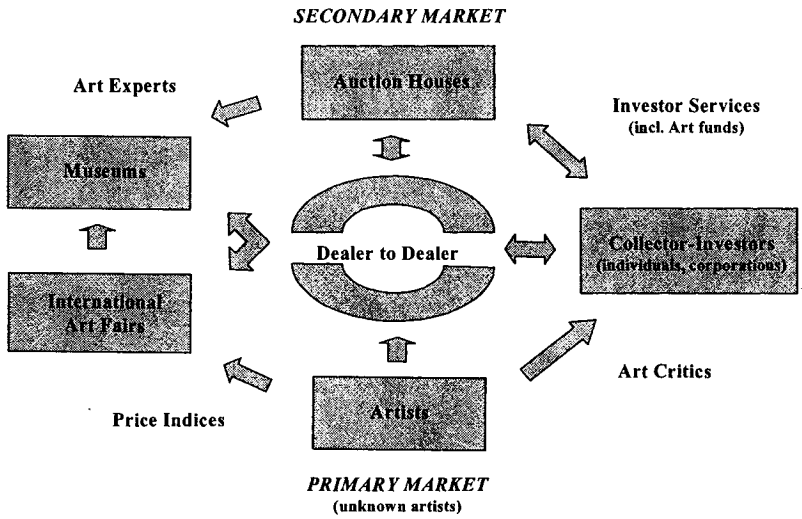
The present-day marketplace for art works is best characterized as a hierarchy of markets. At the entrance level there is the primary market where new and relatively unknown living artists produce differentiated works for a general consuming public. At this stage, there are more people producing and willing to sell art works than there are people willing to buy them – that is, the primary market is characterised by a large supply and insufficient effective demand. In this market, an artist's abilities are relatively unacknowledged and the aesthetic value of his paintings relatively indeterminate. As such, pricing may, in a general sense, reflect some sort of cost-of-production approach, but as Keynes' commented some eighty years ago 'the question of price policy remains a difficult one'. That is, there are generally accepted standards of price levels within local galleries, and factors such as cost of materials and size of art piece play a role, but there can still be a high degree of price variability and a lack of transparency.[79]

To become even a minor success, the artist must take the initiative to create a supportive network of other artists, potential customers, local art critics and art dealers. He

must promote his own work through local, regional and international art fairs, exhibitions and galleries, as well as through on-line art sites. The objective is to have one's art works purchased by serious collectors, dealers and modern art museums, to be invited to a major international art fair (e.g., Venice biennale), to win an international prize and to be represented by a reputable gallery or dealer in order to make the transition to the more lucrative secondary art market. Just being a good artist is often not enough. The artist must also be part business person. Moreover, some sort of notoriety (i.e., novelty, shock value) and inventiveness is needed in order for the artist's work to stand out from the crowd – that is, in order for him to gain recognition for his 'genius of originality'. The probability of making this transition is very low as is evident by the fact that in any major urban centre there are a limited number of established international artists. From the standpoint of the living artist and the dealer, once art works are traded in the secondary market, price levels can be increased (initially modestly but sometime dramatically) for both resold and newly executed works.

The secondary market, also called the dealers' market, is composed of a range of resale markets for the art works (sculpture, drawings, paintings, multimedia, photographs, lithographs, etc.) of notable living and deceased artists and for other fine art collectibles (e.g., decorative arts, Chinese ceramics, antiques, fine jewellery) (see figure 2). It is characterized by a hierarchy of local, national and international sub-markets (e.g., Old Master paintings, Old Master drawings, Impressionist-Post Impressionists paintings, Twentieth Century paintings, etc.). At the top of this hierarchy is a global art market operated by a small network of international auction houses and dealers, with the lion's share of the trade taking place in

Figure 2: Dealer-Centric Art Market



two key centres, New York and London. Paris, which a century ago was the undisputed centre of the art world, is today a distance third in terms of market size. As one moves up the hierarchy of local, national and international markets, supply becomes more limited and demand more and more concentrated as a fewer number of buyers compete for increasingly more valuable art works. Supply becomes more inelastic in the secondary art market and is made up of the authentic art works of established artists offered for sale at a given point in time. On the demand side, buyers are wealthy individuals, corporations, private foundations, museums, dealers and managed art funds. With a relatively limited number of fine art works for sale and with few wealthy buyers, there is the potential for high rewards for galleries, dealers and auction houses in matching supply with demand. Local and international galleries and dealers play a relatively more important role in the market for the works of living artists, although since the early 1970s auction houses have become more active in the resale of the

works of mid-career artists. Moreover, the critical acclaim and market success of living artists has become more contingent on early international exposure. Auction houses and international dealers are central to the trade of works of deceased artists and within specialized market segments, particularly within the uppermost echelons of the market. This market is characterized by what economists call informational asymmetries, where one party to a trade is able to make a profit through the use of information that the others do not have. In this case, the auction houses and dealers make their money by having information on when a seller is likely to put specific art works on the market and on what terms (i.e., estimated price, willingness to barter), as well as the tastes, interests in specific art works and willingness to pay of a select group of wealthy buyers. This competitive structure generally bodes well for the seller of a relatively unique art work, who in effect has a 'degree of monopoly' and who, under normal market conditions, will be able to fetch a high sales price and a moderately good return on investment.[80]

At the beginning of the new millennium, the secondary art market, estimated at $33 billion a year (including fine art collectibles), was prospering with booms in several sectors.[81] In the late 1990s and early 2000s, quality Impressionist paintings were still fetching some of the highest prices, but other sectors had stronger overall performance including Old Masters, American paintings and Modern and Contemporary art works. High prices for exceptional works were accompanied by high 'buy-in' rates, meaning that buyers were discriminating – that is, rejecting mediocre and overpriced works in many sectors from Chinese ceramics, to the decorative arts, British and German paintings, to Impressionist works. Three of the most successful sectors were Old Master paintings and drawings, and

Contemporary art. The boom in Contemporary art, in particular in 2000, was reportedly the result of an influx of dozens of first-time art buyers, many of whom made their money through the exceptional stock performance of the burgeoning new economy industries, and who were willing to pay high prices at auction in order to bypass the waiting lists at the galleries.[82] As reported in *The Art Newspaper*, the new buying patterns seemed to reflect a change in tastes as auction houses and dealers reported a broadened market, with some buyers crossing over from Contemporary and Impressionist works to Old Masters.

These shifts in purchasing patterns may reflect changing aesthetic sensibilities, but economic considerations also play their role. Over the past several decades, high-quality Impressionist paintings (e.g., Renoir, Monet, van Gogh, Cézanne) have been the most expensive items at auction with some Modern works, notably major works by Pablo Picasso (1881-1973), achieving a similar stature. There was and, for the most part, continues to be dramatic price discrepancies between these art works and the quality works within other market segments. For example, a collector could decide to purchase a minor Impressionist for $15 million or she could build a quality collection of Old Masters paintings or drawings for roughly the same price.[83] The choice remains fundamentally a matter of tastes, but with the second option the collector would actually receive greater quantity, potentially higher overall quality, a wider spread of risk and likely a higher rate of return in the medium to long-term. If a buyer cannot afford a relatively unique Impressionist or Modern painting then acquiring more for less just makes good investment sense. With better and more easily accessible information on art prices, there is a heightened awareness of the risks and potential financial returns in investing in the quality works of notable artists across most market

segments. This seems to be, at least, part of the explanation for the recent upsurge in the market for Old Master paintings and drawings. By early 2000, for example, some Old Master paintings purchased in the early 1980s were selling, in nominal terms, for up to twenty-five times their previous sales price.[84]

Our modern art market is highly cyclical and the health of the general economy is critical to its success as the pattern of business cycles since 1990 clearly demonstrates. According to the Art Sales Index (ASI), the value of fine art sold at auction peaked in 1990 at $4.5 billion. When the global economy went into recession in the early 1990s, art auction sales dropped sharply to less than $1.5 billion in less than two years. Based on these figures, which ASI estimates to represent about 75 percent of all art sold at auction (or about 500 auction houses worldwide), the art market shrank by some 67 percent in comparison to economies in Europe and the United States which contracted by less that one percent. Art sales began to rebound in 1995 and by the year ending July 31, 2000, were estimated at $2.85 billion – an 11.3 percent increase over the previous year. Just under one-third of this figure ($916 million) was from the sale of paintings. Geographically, the United States and the United Kingdom account for about 60 percent of worldwide market share, followed in order by France, Germany and Italy which together account for just over 12 percent of the market. The world auction market subsequently declined following the economic downturn of the early 2000s and the political uncertainty surrounding the Iraq war. For the year 2002-2003, total sales were estimated at $2.3 billion, down by about 10 percent from the previous year.[85]

Inflation does play a role in rising prices for works of art. However, other social economic forces are driving the trend, namely the scarcity of supply, rising incomes and

broadening demand shaped by prevailing tastes. Art remains a luxury good and as income increases and wealth accumulates more is spent on it. Moreover, as will be explored in the next chapter, paintings and other visual art works are treated by seemingly more and more people as investment assets, subject to waves of speculation in extreme boom times such as the late 1980s. Clearly, inflation alone does not explain the strong upward trend in art prices in the past several decades as the real prices for many paintings by notable artists demonstrated strong upward movement. For example, Monet's *Le Portail (soleil)* was purchased for over $24 million in 2000, representing close to a six-fold increase in its real price from when it was last sold in 1987. Similarly, in 2000, the real value of Miro's *Le Paiser,* which was purchased for $1.65 million, increased by about six times over its previous price in 1986; and, Picasso's *Buste de Femme Assise sur une Chaisse (Dora Mara)* earned $4.5 million in 2000, representing a five-fold increase from when it was previously on the market in 1996. In recent years, some of the biggest 'winners' in terms of price appreciation, such as Monet and Picasso, were also among the biggest 'losers', displaying, in part, the potential thinness of demand and fickleness of taste that can characterize the market at any given time (see table 6 in the appendix for real price comparisons). However, many of these price drops were for works that last sold at the peak of the 1989-1990 art boom, when the market was driven by a speculative frenzy lead by Japanese investors looking to diversify their financial holdings.

As economics tells us, price is a relative measure that represents the exchange value, or general purchasing power, of a good relative to things in general. Through the last four to five decades, the exchange value of quality art works has increased dramatically. More can

be had in exchange for them than at any other time in history. A painting by Rembrandt would have sold for about £1,000 in the mid-eighteen hundreds, which adjusted for general price inflation is about £65,000 (or $94,900) in 2000 values. A painting by Rubens sold for £1,800 in 1850, which when adjusted for inflation is roughly £113,000 ($165,980); and, a Breughel sold for as little as £2,730 in 1958, which is about £38,000 ($55,800).[86] Presently, these Old Master paintings are sold for millions of dollars. While the artistry, uniformity of composition, and stylistic and technical merits of the works of these artists are there for all to see, this does not alter the fact that the relative aesthetic evaluation of a Rembrandt or a Breughel have apparently changed over time. The works of these and other Old Masters have risen, fallen and risen again 'in fashion' from when they were first produced. What is different is that as the demand for the pictures of notable artists grew over the course of the twentieth century, on average, rising prices dramatically outstripped general price inflation. What is different is that quality paintings became something more than fashionable luxury goods noted for their outstanding craftsmanship. Their rarity and uniqueness became highly prized by an expanding group of very wealthy people who wanted to possess the output of human genius.

Over time, authorship has become surrogate for this 'genius of originality', much as price has become interchangeable with an underlying basis of economic value. Authorship has become synonymous with lasting quality, positively associated with rising prices and acknowledged as a signifier of reliability in investment terms. With this way of thinking, it is generally accepted that the most unique works of the best artists tend to achieve the highest monetary valuations. As is well known, a change in the attribution of an art work, or the re-evaluation

of other aspects of its 'degree of uniqueness' (e.g., historical significance, providence), tends to modify short-term price and long-term performance in terms of the potential for capital gains. In this sense, a change in authorship and the resulting lower (or higher) price seem to affect a re-evaluation of the aesthetic value of a painting. That is, a change in authorship does not in itself alter the artistic merits of a given picture which presumably, at least initially, was the most important factor determining aesthetic value. A change in authorship does, however, alter the perceived desirability of a painting as a 'product of genius'. This logic, imposed in part by people's desire to distinguish themselves by what they possess, coupled with market forces, goes something like this:

Aesthetic Value = Authorship
(i.e., genius of originality)

Renowned Authorship = Economic Value
(i.e., degree of uniqueness)

Economic Value ⇒ Market Price
(i.e., scarcity of supply/indeterminacy of demand)

Market Price ⇔ Aesthetic Value
(i.e., latest sales prices influences perceived genius of originality)

The fear for some, is that this reasoning is valid and that it has reduced any meaningful notion of aesthetic value to mere price. The hope of others, is that this reasoning is valid and that, as a consequence, artistic expression is liberated from the constraints of various aesthetic canons (new and old) and the need to form a judgement in terms of some prescribed gradient of social-cultural value. These observations raise a number of questions about the interrelation of aesthetic and economic value. Does aesthetic value provide the

foundation for price structure in the art market, or has the market's reliance on the surrogacy of authorship become a manifestation of economic value itself? Has the notion of an aesthetic value become meaningless? As some economists seem to argue, has aesthetic value become subordinate to the economic?

CHAPTER 6

THE ECONOMICS OF ART

> Paintings are like stocks and a dealer is like a broker.... If someone tells you to go to a good gallery rather than one that's not so good, you'll get a painting that might turn out to be worth something, a painting you like that's also a good investment. Its like having a broker tell you what to buy.
>
> Andy Warhol[1]

The analogy drawn between art and the stock market by Andy Warhol, America's premium Pop Art celebrity, is simple. This insider's view depicts the art dealer as a consummate 'middle man' who uses his specialized knowledge and expertise to match buyers and sellers, to shape taste and to foretell market trends. From the perspective of economics, this analogy implies an informational inefficiency which is the currency of the dealer who makes his profit by buying low and selling higher. It unequivocally equates paintings to stocks as an alternative investment asset, but with the added benefit of providing a broader return to the investor – that is, a private return that includes an aesthetic appreciation and social prestige dimension which are taken as given. In a way, it alludes to the dealer as a central figure in the creation of value within the marketplace.

As Warhol's comparison makes explicit, by the 1970s, it was increasingly evident that something had changed in the way our society evaluates art, in particular paintings, drawings, sculptures and other tactile objects. Within today's marketplace, these tangible art forms are no longer exclusively treated as a type of durable commodity, but also as an

investment vehicle by art dealers, auction houses, collector-investors, economists and financial institutions. Peggy Guggenheim a well-known collector of modern art, the first patron of the American Abstract Expressionist painter Jackson Pollock and the force behind the late 1940s New York gallery *Art of This Century*, lamented this sea-change in the appreciation of art when she wrote in her autobiography:

> How terribly lucky I was to have been able to buy all my wonderful collection at a time when prices were still normal [inter-world war years to 1950s], before the whole picture world turned into an investment market.[2]

As Guggenheim points out, and others would subsequently highlight, among the most visible indications of this change in our social-economic perception of art is a long-run rise in the purchase prices of the visual works of notable artists.

The dramatic rise in prices within the secondary art market, which has characterized the post-Second World War period, is emblematic of a shift in the economic identity of visual art forms such as paintings, drawings and sculptures from durable commodities to potentially lucrative investment assets. Today, their worth as investment assets reside in their demonstrated reliability as a store of capital and the expectation of future financial gain as based on general market trends. This shift in the economic identity of art works coincides with significant increases in the creation and distribution of wealth and, as suggested in the previous chapter, with changing patterns of demand for luxury goods. But more fundamentally, it is suggested that, historically, the underlying source of change in the economic valuation of tangible art works resides in the re-conceptualization of art as an aesthetically unique product of genius and a bearer of meaning. That is, through this re-conception, the scarcity of individual art works is accentuated. In this way, price has become

governed by the art work's 'degree of uniqueness' as ascribed by various art world players and the machinations of supply and demand within the market. In short, from a political-economic viewpoint, the value of art is created through the processes of production and accreditation and is closely tied to our modern idea of art, itself.

As art prices have risen over the past three decades, economists have paid more attention to the question of the monetary value of art works. Today, there are several longitudinal studies which, building on the earlier work of individuals like Gerald Reitlinger, sketch price performance across several centuries. For instance, William Goetzmann's (1993) analysis of long-term trends in art auction prices over the period 1716-1986 identifies three major bull markets in art: 1780-1820, 1840-1870 and, the post-depression era, 1940-1986. The eighteenth and twentieth-century bull markets coincided with rising consumer price levels, while the nineteenth-century increase in art values ran counter to the prevailing deflationary trend. Moreover, as discussed in chapter five, the driving force in terms of supply and demand also differed in these periods with the 1840-1870 phase characterized by a strong preference for the pictures of living artists at the expense of many categories of Old Masters. As argued elsewhere, at this time the inventiveness of originality was not yet consistently treated as a contribution to value made by 'genius'.

In addition, Goetzmann's study identifies three bear markets in art which correspond to broad economic recessionary periods in Britain and the United States: 1830-1840, 1880-1900 and 1930-1940. As Goetzmann remarks, the period since 1940 is the most reliably estimated and shows unprecedented art price increases.[3] Based on Goetzmann's annualized returns, painting prices grew at an estimated nominal rate of 15.6 percent during 1950-1990

and 17 percent during 1970-1990, albeit this growth was accompanied by high volatility.[4] The most recent bull market studied by Goetzmann had already peaked when in the spring of 1990 van Gogh's *Portrait of Dr. Gachet* sold for a record $82.5 million at Christie's and Renoir's *Au Moulin de la Galette* fetched $78.1 million at Sotheby's in New York. In real terms, these two paintings are among the most expensive pictures ever sold at auction.[5] Immediately following these sales, price levels fell off significantly. According to the Mei and Moses (2001) annual art price index , price levels dropped by an estimated 18.7 percent (note that this index shows that art prices increased 25-fold from 1875 to 2000 with very strong growth from the early 1940s to 1990).[6]

By 2000, prices at auction had returned to late-1980s levels in real terms, although some Impressionist works lagged the top performance of the fall of 1989 and spring of 1990. As Guggenheim expressed and Goetzmann's analysis reinforces, the increase in prices during the second half of the twentieth century "suggests a fundamental change in the demand for works of art."[7] This fundamental change has to do with art becoming more and more integrated into the global economy as an investment asset conditioned by scarcity and its 'degree of uniqueness' in the marketplace.

The assessment of risk and return, unfamiliar to traditional collectors such as Peggy Guggenheim, have become criteria for major art purchases, turning art into yet another aspect of portfolio diversification for the very wealthy and reinforcing it's potential use as a speculative asset.[8] As we know from the turn-of-the-twentieth-century experience of *La peau de l'ours*, the notion of art as an investment is not altogether new. Nonetheless, what is different today is the level of acceptance of an idea which as recently as fifteen to twenty

years ago evoked vociferous derision from influential art-world players. Today, this way of thinking about high-end art works is relatively commonplace within a close-knit art world which has strong linkages to a powerful global financial-services sector.

In general, the ups and downs of the secondary art market, which has maintained a steady upward price trend for much of the twentieth century, is correlated to the rise and fall of financial markets and the fortunes of advanced Western economies. It should be no surprise that economists investigating the art market find that there is a positive relationship between rising prices, the returns on the paintings of notable artists and increasing wealth. This implies that, as the process of capital accumulation speeds up, and greater and greater wealth is created and put in the hands of more people, the potential number of would-be art collector-investors expands. Moreover, the price a person is able and willing to pay for a 'one-of-a-kind' art work also tends to go up as art remains a highly sought-after asset.

In this way, many neoclassical economists tend to assume that demand is the ultimate driver of price and source of value. They assume that the greater the number of individuals bidding on a relatively unique art work, the higher the market price will be on average and, concomitantly, the higher the 'private return'. That is, the winning bidder is willing to pay the higher price because the private value (aesthetic consumption return and social prestige return) he or she associates with possessing a particular art work is greater than that of the underbidder (i.e., the runner-up). The expectation of a financial return over the long-term is acknowledged as a new motivating factor, but, for the most part, higher overall market prices and actual price differentials between the winning bidder and the runner-up are assumed to reflect differences in their subjective assessment of private return. In this way, the possession

of the rare and aesthetically pleasing product of human genius, and the pecuniary reputability associated with owning one or more of these works, are acknowledged as important factors influencing a steady upward price trend and future market stability. From the perspective of mainstream economics, this private return is accepted as a given and is viewed as representing the 'aesthetic utility' as ascribed by individual collector-investors through the process of exchange. Put another way, it is the subjective wants and desires of individual collector-investors that drive the market. It is their subjective expectation of a certain private return which is viewed as the ultimate source of economic value and regulator of price.

While the wealth of the prospective buyers (i.e., the winning bidder and the underbidder) may be interpreted as the only constraint limiting the price of a particular painting, it is not the only factor affecting the demand for art. Changing taste is a key feature influencing actual price. On the one hand, an apparent growing international uniformity of preference has likely contributed to the increase in prices and positive returns for the best works of notable artists, while on the other, changing taste is the largest risk factor facing the prospective investment yield of a specific art work.[9] For example, the term Impressionist initially had a pejorative connotation and the paintings themselves were considered virtually worthless. On one occasion, in 1894, when the painter Gustave Caillebotte bequeathed sixty-five Impressionist paintings to the Luxembourg Museum in Paris (many of these works are now at the Musée d'Orsay), curators reluctantly accepted forty of them, rejecting some future masterpieces including Manet's *At the Races* and Cézanne's *Bathers*.[10] Beginning in the latter years of the nineteenth century, demand for the works of the Impressionists and Post-Impressionists started to expand from a select group of French dealers and collectors, to

German, Russian, American and Japanese individuals and institutions.[11] A small, influential circle of critics, collectors and entrepreneurial dealers played a central role in helping to win over an initially, highly critical art establishment and viewing public raised on the artistic canons of previous centuries (i.e., *mimesis* vs. new non-representational forms). As the sources of demand diversified through increased exposure and mounting critical acclaim, the purchase prices for these and other modernist works rose. In general, as the art market has become more and more global in scope, this rise in demand, particularly since the 1950s, can be taken as evidence of the internationalization of taste in terms of the spread of an evolving western aesthetic which has become increasingly more pluralistic and open.

In sum, changing taste and increasing wealth in the hands of more people are important factors contributing to rising art prices. These demand-side considerations are rightly viewed as central to establishing prices, particularly in the short-run. However, mainstream economics tends to leave a key question unasked – what is the basis of these preferences and how are changes in tastes set into motion in the first place?

Within our modern art market, the decisive factor in terms of price stability and the potential for capital gains seems to be whether or not the artist's name retains a certain 'genius' or 'star' status for unique creative expression over the long-term. The assessment of 'genius' and related considerations, such as the authenticity of authorship and the evaluation of historical significance, are established through the interplay of many art world players and their understanding of the history of art and various art theories. These are factors that condition the relative scarcity of an art work and regulate its 'degree of uniqueness' in the market. They are essentially supply-side considerations as they relate to initial conditions

of production, the art world's process of accreditation and the very definition of art as a unique product of human genius and a bearer of meaning. To be clear, mainstream neoclassical economics, with its preoccupation with the subjective wants and needs of individuals, accepts the fact of scarcity. But it does not seem to be overly concerned with gaining a deeper understanding of the initial causes of changing taste, the dynamics of 'how' value is created in the marketplace or 'how' art works have become investment assets in the first place. In part, this is because these types of questions do not easily flow from the scope of its 'vision' of economics as a field of study and, concomitantly, its theory of value.

As the annuals of art history show, over time the merit of the work of a particular artist may diminish, while that of another may be rehabilitated as the aesthetic significance of their works are re-evaluated by art experts, critics, dealers and collector-investors. Changes in the attribution of a particular painting or a re-assessment of the standing of the artists by members of the art world tend to directly affect economic valuation. And more generally, the aesthetic evaluations of influential art world players (e.g., dealers, critics, museums) also play an important role in influencing taste, particularly over the long-term. All this can make art as an investment inherently risky because there is always the possibility that a work will become obsolete. That is, that it will, as William Goetzmann puts it, "fall from fashion and become worthless."[12] This risk is much higher for the works of living artists who may be relatively unknown and who have yet to prove their long-term worth or 'staying power' within the secondary art market. In terms of the re-assessment of the art of the past, once forgotten names are, today, world-renowned artists acclaimed for their unique expressiveness. For example, Gerald Reitlinger's *The Economics of Taste* lists the names of

"the best known artists of the world" several of whom were underappreciated for their artistry in past centuries, but whose works are now deemed 'priceless' masterpieces. Reitlinger's listing also contains many lesser known names several of whom were once much sought after. For example, according to his research, Nicolas Berghem (or Berchem), Wouverman and the brothers Both were once counted among the most popular Dutch painters in the French and English art markets of the mid to late eighteenth century. In contrast, the pictures of de Hooch and Frans Hals were little esteemed. In the case of Vermeer, by the late eighteenth century his name was all but forgotten outside of his homeland with his paintings often sold as the works of Maes or Metsu. Based in large part on the art historical research of a few art expert-dealers (e.g., Théophile Thoré's rehabilitation of Vermeer in the early 1850s), a re-evaluation of the artistic merits of realism and a rise in the market for Dutch paintings in the 1860s, the valuations of these sets of artists all but reversed.[13] In short, what seems to transpire, time and time again, is that changes in taste are generally based on other changes taking hold within the processes of production and distribution and within key social groups as a whole. In the case of the art world, its various approaches to accrediting the aesthetic value of individual art works and giving recognition to individual artists has come to play a central role in shaping tastes and influencing market trends.

Returning to Warhol's analogy, how do visual arts like paintings compare as an economic asset, particularly with respect to traditional financial assets such as bonds and stocks? Paintings are in many ways extraordinary economic goods. These works are at once durable consumer goods, public goods and investment assets. As a commodity, these art

works provide immediate consumption services through their aesthetic qualities and social attributions. Collectors acquire these works for a variety of reasons, but prime among these are the pleasurable experience of viewing a particular art work and the social reputability of owing it. Collecting art can open up a whole new social experience, including new social networks involving other collectors, dealers, artists, art experts and institutions. Thus, for the majority of collector-investors, there is admittedly more at play than potential investment yields. Private aesthetic return, to use economic jargon, does matter as does the still broader social return associated with art collecting. In particular, the 'pecuniary reputability' of art collecting remains a very visible way by which individuals can express their individuality, their sense of style and possible avant-garde leanings, their intellectual or cultural sophistication, as well as their social-economic status. Art collecting is an important way of identifying oneself as belonging to an affluent social group which, because it possesses the rare and beautiful works of human genius, marks itself out among the elite of society.

Today, art works are produced as differentiated objects. They are heterogenous commodities in that there may be only one unique original version of any work. Although the art world in general may not want to openly acknowledge it, there is a degree of substitutability across the works of a particular artists and to a lesser extent among artists belonging to the same school or period. For instance, there may be more than one version of a painting and an artist may have produced any number of canvases on a similar subject matter while using the same materials. A case in point is a series of still-life's painted by Cézanne near the end of the nineteenth century that came up to auction in 1999 and 2000:

- the 1888 still, *Bouilloire et Fruits* (46.7 x 58.5 cm), sold in December 1999 for $29.3 million at Sotheby's in London;
- the 1893 still, *Rideau, Cruchon et Compotier* (59.7 x73 cm), from the Whitney collection sold for a record $60.5 million in May 1999 at Sotheby's in New York; and,
- the 1895, *Still Life with Fruit and Pot of Ginger* (46x12cm), sold for $18.2 million in June 2000 at Christie's in London.[14]

Any one of these paintings might satisfy a very wealthy collector's desire to round out her collection of Impressionists-Post-Impressionists with a piece that is representative of this genre of Cezanne's *oeuvre*. The purchase price differential for these works are striking and, in part, may reflect the unpredictable nature of demand in a market that depends on a small number of individuals and institutions (these kind of differentials tend to be more pronounced at auction due to the nature of the bidding process). However, as already suggested, underlying the consideration of demand are important supply-side factors (in above examples, size of canvas and historical significance) that, taken together, play a formative role in regulating price and potential investment yield, particularly over the longer-term.

As a regulator of price, scarcity and the reputation of the artist are paramount. Art works are unique commodities and the works of any one artist, even a living artist, are finite. As the reputation of an artist grows, his or her works are purchased and taken out of the market often for years or decades at a time (e.g., a museum purchase or an estate bequest to a museum may be a permanent reduction) and, generally, supply only becomes more and more restricted. Scarcity may pervade the market for the works of notable artists, particularly in the case of dead masters widely heralded for their 'creative-genius', as supply is captured through Museum collections and as a rising number of collector-investors compete for an

ever shrinking number of quality works. Even within the *oeuvre* of an notable artist other supply-side considerations may contribute to significant price variations. For example, a larger-sized canvas is usually considered more valuable. Differences in the artistic and technical merit of a particular work as well as ascribed historical significance are important considerations in assessing 'the degree of uniqueness' which, in turn, directly affects the setting of an 'estimate' sales price. These various supply-side factors which encompass both qualitative (e.g., the name of the artist, type of work, condition of work, historical significance) and quantitative considerations (e.g.., how many versions of the work exist, total number of works by the artist) are embedded in the deep social-historical fabric of art making and consuming.

Art works also exhibit public good attributes when they are purchased by museums, corporations or individuals who then put them on public display. It is generally assumed that the public altruistically benefits from the experience of viewing these works – that is, that the appreciation of art has a civilizing effect on people and is part of a well-rounded education as it broadens the mind and nourishes the soul. Many of today's multi-purpose and specialized museums were established based, at least in part, on this premise and as the benevolent acts of leading industrialists turned philanthropists (e.g., the Bronfman's in Canada, the Rockefeller's, among many others, in the United States). Moreover, paintings and sculptures of dead masters are often considered part of the cultural capital of a nation. Many countries have export laws that limit the sale of some of these national treasures outside their borders (e.g., Italy, France, United Kingdom) and, in some cases, laws that authorize the government to offer to purchase such an art work on behalf of a national

institution.[15] Some countries also try to repatriate works that they have deemed culturally-historically significant for their people (e.g., the Elgin Marbles being one of the more celebrated cases).

Finally, art works as investment assets provide financial services to their owners either through their potential price appreciation when resold, or as collateral for debt financing or some other business transaction. Today, several of the world's larger banks (e.g., Credit Suisse, Deutsche Bank, Coutts, Chase Manhattan, UBS and Citibank) provide specialized advisory services for collector-investors. For example, Citibank's art advisory service has been around since about 1980. While not all banks accept art as collateral, several private banks do. These banks generally lend against art at 50 percent on the margin or about half the market value of the painting. These financial advisory services provide art investors with a great deal of expertise on the art market and on investing. As one banker describes their role:

> When we start working with a client who wants our service, the first thing is to get to know his or her financial profile. This shows how they spend money, what their approach is to investment. Then we can advise as a function of this: for example a bond or cash investor might be oriented towards a low risk area such as Old Masters whereas we could advise a dot.com entrepreneur to look at contemporary art.[16]

World leading financial institutions continue to be active in this business despite the unpalatable experience of Japanese banks during the boom-bust period of the late 1980s and early 1990s. A decade later, the Japanese were still sorting out their losses from the bad debt incurred when corporations used their art acquisitions (much of it bought at the height of the 1980s art boom) as a way of securing bank loans. It is estimated that during the four year period, 1987-1990, Japanese buyers spent about ¥3 trillion (or $21.5 billion) on art

acquisitions.[17] As with the fall in Japanese real estate prices, by 1991 much of this art was worth a fraction of the borrowed money, many corporations declared bankruptcy and banks ended up with unrealized art debt. Some of this art has since gone to market at reduced prices, some has found its way into Japanese museums with the intervention of the government and, as of early 2001, some was still registered on the statements of troubled or bankrupt Japanese financial institutions. Although, it is difficult to estimate how much bad art debt still exists, one estimate put it at over $1 billion as of May 2001.[18] In part, what seems to be at work is that the long-run upward trend in art prices has provided a level of confidence to financial institutions, collector-investors, art funds and the art world in general, that the quality works of notable artists will remain viable investments into the foreseeable future. That is, in the context of an expanding global economy, it seems that the long-run prices of these works are generally considered stable and relatively predictable.

In the last several decades, with prices for many art works increasing dramatically and with the rising presence of investors, some economists have suggested that art is also a speculative asset. As John Picard Stein (1977) supposes, art works are "speculative goods to the extent that demand determines future price appreciation and expected future price appreciation determines demand."[19] To be clear, the same statement applies to stocks or real estate during boom periods. In the case of art, the dramatic rise and subsequent decline in prices during the late 1980s and early 1990s was suggestive of a 'rational bubble' wherein the expectation of the collector-investor in rising prices and the possibility of short-term gains associated with unique paintings (in particular Impressionists, Modernist and Contemporary art works) exceeded the perceived risk that the growing price 'bubble' would

burst.[20] The net effect was that the nominal prices of specific art works far exceeded previous sales performance for their respective artists and market segments only to be followed by a precipitous fall in the volume and monetary value of auction sales and other transactions. For example, the painting *Le Violoniste au Monde Renverse,* by the Russian surrealist Marc Chagall, sold at auction for $4.2 million in 1989, and eleven years later (May 2000) fetched only $2.1 million (see table 5 in the appendix). Peter Watson, in his richly detailed book, *From Manet to Manhattan*, describes the height of the 1980s boom (November-December1989) as the "billion-dollar binge". During this period, close to three hundred art works, dominated by Impressionist and Modern paintings, were purchased for a million dollars or more through auctions held in London, New York, Paris, Monaco, and Berlin.[21] Exceedingly high prices were paid not only for works that the experts considered exceptional, but also for many lesser ones. In contrast, the strong performance of the art market at the end of the millennium seemed to be fuelled more by exceptional prices for exceptional works in most major categories, including Old Master paintings and drawings, Impressionist paintings, and Modern and Contemporary works with the latter segment being the most speculative (see table 6 in the appendix for a sample of the top purchase prices during these two periods). In sum, as with the experience in financial markets (e.g., most recently the dot.com 'bubble'), speculative demand is an aspect of the psychology of the market which can sharply drive up prices, but which is, almost always, followed by a period of downward price adjustment.

Some economic studies have also explored how art might fit into a portfolio of investment assets. A key difference between art as a real asset and traditional financial assets

is that returns come only in the form of capital appreciation at the time of sale, whereas assets such as stocks may not only appreciate over time but can also produce a capital flow or dividend. Moreover, there can be significant costs associated with holding real assets such as real estate or art (e.g., insurance, storage, and restoration); and they are not as liquid as financial assets which can be easily turned into 'ready-money'. Nonetheless, it does seem that corporations and very wealthy individuals tend to consider art as part of their investment portfolio. For example, in 1987 the Playboy Corporation sold a de Kooning for $2.53 million and a Jackson Pollock for $2.57 million. These works were originally purchased by Hugh Hefner because, as Playboy stated, he admired the artists. Yet, in explaining why the corporation was selling the paintings, Hefner's business manager at the time, Richard S. Rosenzweig, told the *New York Times* that "we are a corporation and we have a responsibility to the corporation to capitalize on this investment."[22] In hindsight, we know that Playboy's speculation on the art market was off by about two years for at the height of the art boom in 1989 a similar Pollock sold for $10.5 million.[23] The worth of Abstract Expressionist paintings has appreciated dramatically from the 1950s, when the American school started to gain international recognition, to the height of the eighties' art boom. As a point of comparison, when Peggy Guggenheim started to collect the paintings of, a then relatively unknown, Jackson Pollack in the late 1940s the purchase prices ranged from $500 to $1000 apiece.

In recent years, one of the most transparent cases of art as investment is that of the British Rail Pension Fund which, beginning in the mid-1970s, invested millions of British pounds a year on art acquisitions believing that with inflation at 27 percent (in Britain) art

was one of the best ways to maximize profits. The intention of the British Rail Pension Fund was to hold on to its art assets for about twenty-five years. When the Fund sold off its collection of Impressionist and Modern paintings at auction in April 1989, the twenty-five works sold had cost £3.4 million and realized £35.2 million ($66.88 million). The investment had grown at 11.9 percent a year when adjusted for inflation.[24] Also, during the heydays of the 1980s' art boom there were reports that some American savings and loans institutions, Japanese banks and insurance companies as well as other large corporations, were active art buyers as they looked for new ways to diversify their assets and increase returns. For example, as reported in *The Art Newpaper* at the time, the Japanese construction company Maruko was actively purchasing art works with the intention of offering shares to private individuals with the condition that the works would be resold after a period of five to ten years.[25]

Of course art funds are not new and there have been both significant successes (e.g., the British Rail Pension Fund) as well as failures (e.g., the French bank BNP's fund which lost $8 million). Anecdotial evidence indicates that private art investment funds and consortia, involving financial groups acting as backers and supported by networks of dealer partners, became more pronounced in the late 1960s. For example, the Artemis Group, which today describes itself as a discrete dealership working at the higher price echelons of the art market, was started by the Banque Lambert in Brussels. For the year 2000, the Group reported a turnover of $13 million and an operating profit of $820,000. The Group valued its holdings of art works at about $32 million.[26] In the spring of 2002, *The Art Newspaper* reported on the launch of a new art fund backed by Dresdner Kleinwort Capital. The

objective of the fund, as described by its founder Philip Hoffman, is to attract up to 200 wealthy individuals to establish a $100-350 million pool and to purchase as many as one thousand art works (i.e., Old Masters, Impressionist, Modern and Contemporary art) during a ten-year life span. The projected rate of growth in the financial value of the fund, based on Art Market Research figures, is reportedly 12-13 percent over the ten years.[27]

These various funds are updated versions of André Level's *La peau de l'ours* which, at the beginning of the last century, purchased contemporary art works (e.g., van Gogh, Matisse, Picasso) with the goal of selling them within ten years as a money making enterprise. Level's group of like-minded friends and acquaintances laid the pattern for the more formal art funds that eventually followed. However, it also had the artists' interests at heart and provided a 20 percent share in the profits of each work to its respective creator. *La peau* was an interesting experiment conducted by people with a keen interest in building support for the contemporary art of their time. It was more of an informal club in contrast to the institutional-backed art funds of today. As indicated by Frank Lloyd, co-founder of the Marlborough art gallery when testifying in the mid-1970s during the 'Matter with Rothko' trial, a certain amount of buying is undertaken by select financial institutions either indirectly through their backing of some form of art fund or directly through an affiliated art investment service. As Mr. Lloyd described the situation in the 1970s:

> It is usually banks which buy art portfolios and sell these art portfolios to their clients.... so all the banks in Switzerland, and in Belgium and in Italy, are potential art buyers and if you go to the Union Bank of Switzerland, and in the basement there you will see 200 pictures on the walls.... This is our problem in the art business, that there is too much speculation going on, and not enough collecting, but we can't change that.[28]

The seventies were volatile times not just for art but for markets in general, with the breakdown of the Bretton Woods system and the subsequent deregulation and massive expansion of the world's financial sector. These developments set the stage for the 1980s as a decade of unprecedented global investment. Given the extraordinary growth in world financial flows, it should not be surprising that some institutions further diversified their lines of business to include more formal art-investment services. Nor is it surprising that this business opportunity should continue to evolve. For example, a proposed five-year deal (announced in 2001) between the Guggenheim Foundation and Switzerland's eighth largest bank, Banca del Gattardo, was designed to provide funds for the enlargement of the Guggenheim museum in Venice in exchange for enhanced credibility for the bank as part of its planned market expansion in Italy. More specifically, the bank, which is mainly involved in portfolio management for private clients, was to provide an undisclosed amount of money to renovate the *Palazzo Venier dei Leoni*, which houses the Peggy Guggenheim Collection, and to conduct a feasibility study for the museum's expansion. In return, the bank wanted to have access to the *Palazzo* and host exhibitions taken from the Peggy Guggenheim Collection in its own art gallery in Venice. The Guggenheim Foundation also reportedly entered into a collaborative relationship with the Deutsche Bank as part of its plan to establish a Berlin branch of its museum.[29]

There is a basic connection between art and money that dates back over the centuries, and as argued in this study, an explicit connect between art and investment goes back at least to the Impressionists and André Level's *La peau de l'ours*. John Maynard Keynes acknowledged this connection in 1921 when he suggested:

> The element of 'investment' may not be entirely absent after all, that great masterpieces have often cost their first owner very little and that the cunning purchaser has a real chance of finding ... a picture which public collections will covet some day.[30]

What is arguably new, over the last several decades, is that for many people within the art world it is no longer considered an aberration for the collector-investor (i.e., corporations, individuals, art funds) and for financial institutions to overtly treat art as an investment, to expect a certain financial return, to use art as collateral for debt financing or as yet another financial or marketing dimension of business expansion.

The art business is a sophisticated global enterprise that is integrated into a world-wide financial system. This being said, the art market and the stock market are very different beasts. To briefly summarize, key differences as discussed within the economic literature include: the heterogeneity of art works (i.e., the 'degree of uniqueness') versus the homogeneity of stocks; the relative illiquidity of art versus a highly liquid set of financial assets; the high degree of monopoly exercised by the owner of an art work versus the competition of the stock market; the infrequent resale of a given art work (i.e., maybe as seldom as once a century or in the case of works held by museum never at all) in contrast to the instantaneous two-way exchange of stocks; the possible lack of public information on art works and their purchase prices in contrast to stock information that is readily accessible in a variety of formats (although, over the last thirty-five years, there has been a dramatic expansion in art informational services including on-line price indices[31]); the relatively inelastic supply of art works at least over the short-term; purchase decisions that are based on taste as much as upon discounted expectations of future price increases; and, the difficulty or, as many would argue, impossibility of determining the real (equilibrium) price of art

works versus an accepted approach for determining the equilibrium price of a stock (i.e., the stock's pro rata share of the discounted present value of the company's expected stream of future earnings).[32] All of this implies that the art market is relatively distinct, that prediction of future prices is not very reliable and that, in terms of economic orthodoxy, the long-run or real (equilibrium) price of a given art work is not knowable. Taken together, all this should make art a much more volatile investment asset. From the perspective of mainstream economics, it implies that art prices, while experiencing an unprecedented upward trend, are inherently unpredictable and that the art market is highly uncertain, particularly over the long-run, largely because demand itself is highly unpredictable.

Outside of the fact that economic models cannot be used to establish the real (equilibrium) or long-run, 'natural' price of art works – a point on which all leading economists going back to Smith, Ricardo, Jevons and Marshall seem to agree – does the art market and its process of price formation in the immediate term differ greatly from the way other markets function? Are short-term art prices and today's long-run upward price trend, as a consequence, inherently unpredictable or irrational? And, at a more conceptual level, is the fact that we cannot calculate a real (equilibrium) price for notable art works mean that economics has little useful to say about the value of art, and conversely that art as an exceptional cultural commodity and viable investment asset sheds no or little light on the validity of economic theory?

The remainder of this chapter will explore how price is actually set in the art market with the objective of gaining a better understanding of how supply and demand-side factors, within the context of scarcity, interact to regulate market price. It will also further explore

the idea of art as investment and whether this way of thinking about art helps to better explain its current, social-economic value as a 'priceless' asset. The underlying assumption is that, much as David Ricardo maintained, while the idea of utility is a necessary condition for determining economic value it is not sufficient. In the case of something like art, scarcity as it relates to a unique cultural good plays a powerful role in determining underlying economic value. This being said we can never mathematically translate art's underlying value into economic terms such as equilibrium price or 'natural' price. The unique works of notable artists, revered for their manifestation of 'creative-genius', are irreproducible and monopolized. They are governed by their 'degree of uniqueness' and thereby no longer have any connection to real (equilibrium) or long-run, cost-of-production price. They are in this sense economically 'priceless'. Nonetheless, as tangible assets for which short-run prices are set everyday in the marketplace, art works are part of the real world economy. Although there are informational inefficiencies, we can study their historical price performance and establish price estimates over short time periods which, in turn, can be used to assess future price trends. That is, we can know the price of these scarce assets as the proportion of supply to demand, and we can understand their social-economic value as emanating from the very idea of art itself.

Pricing the Priceless

As an economic good, the visual art works of notable artists have a certain identity as unique cultural products of human genius. Art's economic value is rooted in this idea of uniqueness. In the world of the plastic arts, where the word unique also often means only one

physical version of a work, or at most several differentiated works within a thematic series, this idea takes on further significance. The fact that individual works of notable visual artists are considered one-of-a-kind physical objects means that, in economic terms, they are irreproducible goods whose supply cannot be increased. They are private property. In this sense, their economic value can be said to emanate from their scarcity or inelasticity of supply. As these works have become highly-prized possessions by an increasing number of wealthy individuals and institutions, market prices have risen steadily. The effect has been that of a 'virtuous circle'. As the works of a particular artist gain wide recognition for their originality, the price of the artist in the market accelerates. As prices increase in the face of limited supply and rising demand, so does the name recognition, notoriety and accepted genius of the artist. There does seem to be a mutually reinforcing relationship between rising price and the aesthetic evaluation of an artist's work which the market tends to reduce to the authenticity of authorship. In simple terms, it's the interaction of limited supply and rising demand, situated within the context of prevailing tastes and rising wealth, which regulates actual purchase prices in the short-run. The resulting upward price momentum of original paintings and other rare works over several decades has meant that these objects have become more than just a store of value and signifier of wealth, they are also a useful means for increasing wealth as a source of capital gains. They have become tangible investment assets which may be used as a form of 'wealth-as-capital'.

While this gives us a way of interpreting an underlying basis of price formation as part of the changing social-economic identity of art works, it does not tell us much about how art prices are actually established. There are many supply-side factors making up the identify

of an art work. Taken together, these factors determine a work's relative uniqueness which, in turn, influences actual price and governs long-term trends. These supply-side considerations include the following kinds of questions. What is the status of the artist within the art world, is he considered a 'creative-genius', a well-established international name or a 'rising star'? What is the acknowledged artistic merit, originality, and, or, historical significance of the art work within the *oeuvre* of the artist? Is the art work, or life of the artist, of current interest to art historians, experts and critics? Is the artist being written about in the popular press or the professional press? Are other art works by the same artist counted among the collections of a major or minor museum? In whose private collections is the artist represented? Where and how frequently have the works of the artist been exhibited? What are the dimensions and condition of the piece, has it been restored or altered in anyway? What is the present ownership and who were the previous owners (i.e., provenance)? How certain is the attribution and has it ever been changed? Has the art work, or other works by the same artist, been sold at auction before and, if so, when and for how much? What are the recent purchase prices for similar works of other related artists? Are dealers promoting the artist to collectors or disregarding him?

In sum, economic value stems from the scarcity of supply and the 'degree of uniqueness' of a particular art work as the product of human genius as assessed by a range of art world players. When it comes to pricing in the short-term, it is the interaction of these supply-side considerations with the level of demand that determines the outcome. Moreover, given the critical role disposable income plays, it is important to situate the price gyrations of the art market within the context of aggregate demand and the general state of national and

global economies. In this sense, it is the 'extent of the market' that regulates actual prices.

Within the secondary market, auction houses provide the greatest transparency on how the art-pricing process works. There are three key aspects to the auctioning process: establishing the 'price estimate' (usually expressed as a range) and 'reserve price' for a particular art work prior to auction; stimulating and assessing demand through 'pre-auction marketing' of the art work to select clientele, the art trade and the general public; and bringing together potential buyers through the actual auction or 'bidding process'.

In general, bringing a particular art work to auction takes three to six months and sometimes longer if there are outstanding legal issues relating to estate settlement or rightful ownership. Once any legal hurdles are overcome and an auction house accepts, in principle, a particular art work for sale, the seller enters into a contract that outlines the general terms and conditions. A common aspect of the contract is an agreement on the 'price estimate' and the 'reserve price', although there may be other terms (e.g., commission, whether the painting can travel so that select clients can view it, date of sale, insurance). The seller also pays a commission to the auction house for handling the sale (i.e., for major auction house as much as 12 percent, depending on the picture and the client this may be reduced or wavered). In general, the 'reserve price' is considered the minimum purchase price that must be reached at auction for the art work to actually change hands. If the art work does not reach its 'reserve price' during bidding then a representative of the auction house will bid. The auction house in effect buys the art work for the current owner and the art work is 'bought-in'. Alternatively, the auction house may agree, as a condition of the contract, to guarantee a certain purchase price in which case it is the auction house that becomes the owner of the

art work if it fails at auction. This practice of guaranteeing prices was a more common practice in the late 1990s and early 2000s, as the major auction houses (Sotheby's, Christie's and Phillips) aggressively competed for business.[33] Alternatively, there may not be a 'reserve price' as the owner may, for a variety of reasons, need to sell the work to increase liquidity. Nonetheless, the auction house will provide a low and high 'estimate price' for the work based on a consideration of the aesthetic quality and significance of the work as well as general market conditions. The general rule of thumb is to try to bring an art work to market when it has the potential to fetch a reasonably good price.

The 'price estimate' is based on many of the supply-side factors outlined above, but clearly some of these are more important than others in setting a specific price range. The name of the artist, the size, type (sculpture, oil painting, water colour, lithograph, etc.) and *genre* of the work (i.e., category or school), the condition and provenance of the work (i.e., who owned it), and its originality and historical significance, are all key factors to be assessed by the auctioneer and art specialists. Once the authenticity is determined and assuming that the painting is in good condition, then previous purchase prices for the work, others works by the same artist or other notable artist from the same school and general market conditions are taken into account. All art works are considered aesthetically unique and some are more unique than others. If a painting is considered to be of a very high quality, or of particular historical significance, then its 'price estimate' will typically be higher than that of other works by the same artist. Generally, as the 'degree of uniqueness' of the art work increases so does the 'price estimate'. If market performance has been lackluster, and if the art work is considered more of a museum piece (i.e., the artist or work is highly

regarded in art historical circles but lacks popular appeal), then the low and high estimates will likely be more modest. This is the case for exceptional masterpieces of highly acclaimed artists as well as the quality art works of lesser known masters. In other words, 'estimate prices' for art works do tend to be proportional to their current merit as art, but within the context of the general price level and aggregate demand.

The 'price estimate' and 'reserve' establish a standard economic valuation for unique art works. In a way, by setting a baseline price, the 'estimate' and 'reserve' anchor the bidding process. Thus, unlike the real, long-run price of other commodities which acts as a magnet towards which 'actual' price gravitates, the 'estimate' and 'reserve' establish a minium which the actual price is expected to meet and, in good economic times, often exceeds.

Depending of the general performance of the art market, auction houses may decide to establish an 'aggressive' or 'modest' estimate price as they are motivated by the desire to demonstrate that every auction sale is successful. Admittedly, the bidding process always involves a degree of uncertainty, as the entrance or exit of a few bidders can have a dramatic effect on the final outcome. Auction houses try to limit this uncertainty through the maintenance of extensive networks of dealers, collector-investors, museum curators and other art world players so that they know ahead of time who is likely to bid on what. When it comes to the final purchase price of an unique art work, prevailing tastes among major collector-investors, who tend to be the high bidders, does play an important role. In a narrow sense, it is the individual collector-investors' desire to possess the aesthetically unique that establishes the final price of a particular painting. And, historically these preferences are

reflected in the general price level across categories of paintings and among individual artists. Thus, as Ricardo argued, in the end, it is the short-run interplay of supply with demand, within the context of the extent of the market, that regulates actual price.

An example may help illustrate how the 'estimate' and 'reserve' prices are set. Peter Watson's account of the drama surrounding the sale of van Gogh's *Dr. Gachet* provides an insider's view.[34] *Dr. Gachet* is one of the most expensive works of art ever sold at auction. While there was much anticipation in the spring of 1990 that the painting could break the then-world record ($53.9 million, including commission, paid for van Gogh's *Irises* in 1987), there was mounting uncertainty in an art market which was already showing signs of a downturn due to a worsening global economic recession. *Dr. Gachet* was undoubtedly one of the most noteworthy Post-Impressionist paintings to ever come to auction. The painting was executed about six weeks before van Gogh committed suicide and, according to the artist himself, it marked a new approach to portraiture. As van Gogh commented in a letter to his sister:

> I should like to paint portraits which would appear after a century to the people living then as apparitions.... I do not endeavour to achieve this by a photographic resemblance, but by means of our impassioned expressions.[35]

As Peter Watson explains, the uniqueness of this painting is "underlined by the fact that it was both the first and the last to exemplify this new approach."[36] Some, including Watson, have also highlighted the iconographical significance of the work. The real Dr. Gachet was an eccentric who had known Corot, Courbet, Daumier and Victor Hugo. He made friends of many of the Impressionist and Post-Impressionist painters (Pissarro, Renoir, Sisley and Cézanne) and was also painted by Cézanne, Norbert Goeneutte and Charles

Léandre. He was an avid supporter of van Gogh's work at a time when few others supported the artist, and he was treating van Gogh for his melancholia. Dr. Gachet and Van Gogh also physically resembled each other and some art experts view the painting as a form of self-portraiture. For these reasons, the painting is considered to be a more important work than van Gogh's *Irises*. In addition, the painting, owned by Mrs. Siegfried Kramarsky, was in very good condition and the only other version was in the Musée D'Orsay in Paris. And yet, it was thought that the painting was more of a museum piece with less appeal among the very wealthiest of private collector-investors (in particular the Japanese) than say the more colourful Renoir work, *Au Moulin de la Galette*, which was coming up for auction at Sotheby's. Mediating the 'degree of uniqueness' of the work against the potential lack of appeal and growing uncertainty in the market, Christie's settled on an 'estimate price' of $40-50 million. While this was a higher 'price estimate' than what was set for *Irises*, Christie's considered it somewhat modest. As Peter Watson recounts:

> Though they [the Kramarskys and Christie's] both felt that *Dr. Gachet* was more important than *Irises*, they also realized that *Gachet* might appeal to art historians or museum curators but that the kind of person likely to be able to pay a record price for it might prefer pretty flowers to a somber portrait. Therefore Christie's concluded that it would be better to have a slightly shy estimate beaten rather than to have an aggressive estimate fall.[37]

Christie's wanted to wave the seller's commission but in the end agreed to 3 precent on the insistence of the Kramarskys. The 'reserve price' was established at $35 million, slightly less than the low estimate which was consistent with general pricing practices.[38]

Returning to a discussion on how the art-pricing process actually works, once an 'estimate' and a 'reserve price' are established for an art work, then it is marketed by the auction house as part of the lead-up to the actual sale. The marketing effort includes several

steps: the production of high-quality photographs and expert write-ups for catalogues; the distribution of catalogues to the art trade and special clients (i.e., the very wealthy regular clientele of the auction house generally defined in terms of how much money the client has spent at auction over the last couple of seasons); general advertising and more targeted promotion of the auction within the trade media; ensuring that special clients, in particular those who may have interest in specific art works, are given special attention (services include providing information and expertise on the art work, arranging for a preview of the art work, arranging for seats at the auction, actually bidding for the client). The objectives of the auction house's marketing efforts are straight forward: generate interests in the art for sale among critics and trade media, dealers and other clients (individual or institutional collector-investors); when possible, use a major work as a means of adding notoriety to the sale in general and to possibly buoy up the sale of lesser works; and, get a sense of who might be bidding on specific art works and at what prices. Clients may ask for a condition report or payment terms (a common schedule calls for a third of the payment in thirty days, another third in sixty days and the remainder in ninety days). Clients may also book their bids for an art work with the auctioneer in advance of the sale. Another important aspect of a successful auction is making sure that the intelligence on bidders is figured into facilities management, including appropriate seating arrangements in the main room or a side room and access to enough telephone lines for telephone bidding. During the actual sale, the auctioneer is assisted by spotters who are available to help identify bidders. For the auctioneer, a key decision is at what price to start the bidding. A general 'rule of thumb' is to start the bidding at about 50 percent of the low estimate.

Once the 'reserve price' is exceeded, the final purchase price ultimately depends on the number of bidders, how wealthy they are and what credit they may have lined-up, as well as the competitiveness of the winning bidder and the runner-up. An art work may go unsold because of lack of interest, never reaching its reserve price, or it may set a new price record for the artist. In the end, it is the extent of market which dictate whether the 'reserve' and 'estimate' are reached or exceeded. As such, with the relative inelasticity of supply and uncertain demand, art works may be subject to a high degree of volatility and speculation, particularly during extreme boom-bust cycles. This is why, from a neoclassical perspective, William Baumol has referred to the pricing of art works as a "floating craps game". Or, to put it in mainstream economic terms, the normal equilibration process (where supply adjusts to changes in demand), observable in manufacturers goods markets, is weak to non-existence in the art market and, as a consequence, art has no real (equilibrium) price.[39]

Following through on the example of the sale of *Dr. Gachet*, the auctioneer, Christopher Burge, started the bidding off at $20 million, and the price rose steadily until it reached the low estimate of $40 million. At this point, the bidding faltered temporary as one bidder dropped out only for another to enter the game. Based on Peter Watson's account, from here on the contest was between two almost equally determined buyers, one European and the other Japanese, both represented by dealers. The bidding continued to increase by increments of one million dollars until it reached $75 million which, with a 10 percent buyer's commission added on, equalled a final purchase price of $82.5 million. Two nights later the same dealer purchased Renoir's *Au Moulin de la Galette* at Sotheby's for $78.1 million (including a 10 percent buyer's premium). The buyer of both pictures was

Ryoei Saito, owner and honourary chairman of the Daishowa Paper Manufacturing Company. Saito financed the purchases by borrowing against his company's real-estate holdings and, according to Peter Watson, was ready to go even higher for the Renoir than he did for the van Gogh.[40] The current whereabouts of *Dr. Gachet* is unknown but it is speculated that the picture has gone to a European collector. Renoir's *Galette* has reportedly been resold to a private collector in the United States.[41]

As illustrated in the case of *Dr. Gachet*, the role of the art dealer is important to the functioning of the market and the formation of price. The dealer acts as emissary and advisor for the collector-investor. She may bid for the collector and thereby maintain the collector's anonymity. She provides expert advice on the attribution and artistic merit of specific art works, on what artists and art works might augment a burgeoning collection, on pricing and on what art works are more likely to hold or increase their value in the medium to longer-term. She may also help shape or influence the taste of the collector-investor. Thus, the dealer, through her intermediary and marketing function, has at least an indirect affect on the prices fetched at auction. But major dealers also buy directly. They may purchase a particular art work with a specific collector-investor in mind, or they may buy a piece to build up their stock or because they believe the art work is under-valued. For instance, when the London dealer Jean-Luc Baroni of Colnaghi purchased the Michelangelo drawing *Study of a Mourning Woman* for £5.943 million ($8.4 million) at Sotheby's in July 2001, he openly said: "I do not have a particular client in mind. It is an outstanding drawing.... I have bought it for stock."[42] Similarly, when the New York dealer Otto Naumann was asked by *The Art*

Newspaper why he was asking $3.5 million for a Frans Hals painting that he had recently bought at auction for $1 million, he responded:

> The price was depressed because the painting had been hawked around the trade at much too high a price; it was horribly framed and covered with a glistening varnish; now that this has been removed, the paint surface is shown to be in excellent condition.[43]

As these example help illustrate, the dealer can play a central role, among the various art world agents, in helping to create value in the marketplace.

A successful, reputable dealer needs to be an art expert as well as a good business person who understands price, client preference and market psychology. The dealer's business interest lies in making a profit through the buying and selling of beautiful and rare things that bring satisfaction to wealthy collector-investors. The objective is to buy low and sell higher. As Robert Noortman, the Dutch dealer in Old Masters, comments: "It's a matter of trying to buy the best pictures and then placing them, finding the right institution or the right collector."[44] According to Noortman, if the dealer makes 15 percent in one year then he's made a good purchase. If it takes three years to make 15 percent then the dealer has, generally, made a poor buy. As he recounts an art trade aphorism: "The longer a private client has a wonderful picture the more expensive it becomes and the longer a dealer has a wonderful picture the cheaper it becomes."[45] At the time, Noortman had paid over £27 million for two Rembrandt paintings at separate auctions – *Portrait of an Old Woman* in London in December 2000, and *Portrait of a Gentleman in a Red Doublet* in New York in January 2001.[46] Given that the past several years had seen an increase in the prices for Old Master paintings and drawings, the Dutch dealer was betting that the market upsurge would continue. In 2000, it was not uncommon for works by Dutch artists to sell for three or four

times their price estimates.[47] Given that the two Rembrandts in all likelihood were destined for private sale their resell prices are unlikely to become part of any price index. Indeed, the names of the buyers and the prices paid may never be made public, at least not in the short-term.

Of course, dealers also work outside the realm of the auction, working with collector-investors or their estates to sell unwanted pictures and to buy new ones. Many collector-investors prefer the greater discretion private dealers and galleries offer. Not all good pictures sell well at auction which is considered the highest end of the secondary art market. For instance, when the financier Saul Steinberg's collection of Old Masters came onto the market, it was sold through a dealer friend, Richard Feigen. According to Mr. Feigen, it was unlikely that this collection of sixty works would sell well at auction. They were "serious pictures" and "serious pictures don't sell for the highest price at auction."[48] In the dealer's learned opinion, these were pictures that needed to be carefully placed, mostly with American museums whose collections were weak in these specific works. An experienced dealer through her network of collectors, trade's people and museum curators is often better positioned to successfully market and sell a painting.

While the dealer plays an important role in the secondary art market, her role is even more central in the working of the primary market. In principle, the same factors that are taken into account in establishing an estimate and reserve price are at play here too. But, the problem for the unknown artist, and even the rising star in Contemporary art, is that many of the factors do not apply in a beneficial way. Their art has not been sold at auction, it does not hang in any museum and its aesthetic value is uncertain and relatively untested in the

marketplace. To put the broader market into perspective, as William Grampp asserted in his book *Pricing the Priceless* (1989), all but one-half of one percent of the art of the past is totally worthless and the most vulnerable to collapse is the most recent. Although a somewhat less harsh assessment, the Art Dealers Association of America conclusions are similar. Of all the contemporary works sold in a given year, 99 percent declines in dollar value.[49] For the artist to be successful he first needs the recognition of his peers, the acknowledgement of serious critics, as well as a growing cadre of collector-investors and dealers starting to buy and trade his work. Thus, initially, the artist must market himself, finding ways to increase visibility.

The artist's first objective is to get a good dealer. Through time some artists have proven to be much more interested and successful in self-promotion than others (e.g., Rembrandt, Degas, Picasso and Warhol versus Vermeer, van Gogh, Cézanne and Rothko). As Andy Warhol put it in his book *POPism,* a good dealer is critical to success, especially over the long-term:

> To be successful as an artist, you have to have your work shown by a good gallery for the same reason that, say Dior never sold his originals from a counter in Woolworth's.... It's a matter of marketing, among other things. If a guy ... wants to buy something that's going to go up and up in value, and the only way that can happen is with a good gallery, one that looks out for the artist, promotes him, and sees to it that his work is shown in the right ways to the right people. Because if the artist were to fade away, so would the guy's investment.... No matter how good you are, if you're not promoted right, you won't be one of those remembered names.[50]

In short, to be successful the artist needs to be recognized in the right circles as a producer of original works that are of a potentially, lasting aesthetic quality and that, as a consequence, may one day be valuable investment assets.

The role of the dealer, once she has decided to accept a new artist into her gallery or among her stable of artists, is to systematically and tirelessly market the artist, and to work

with him to create value over the medium-term. The dealer acts as a personal agent for the up-and-coming artist, promoting his stock to art critics, collector-investors and other dealers. This is what all of the great dealers from Paul Durand-Ruel, to Ambroise Vollard, Daniel-Henry Kahnweiler, Paul Rosenberg, Georges Wildenstein and Leo Castelli, have done to elevate many of the superb artists of the twentieth century, including the truly great such as Matisse and Picasso. The initial price for the work of an emerging artist is modest and is based mainly on size of picture, type of materials used (e.g., paper, canvas, water colours, oil paints), composition and a mark-up. Local artists and galleries tend to have general price thresholds which act as regulating standards. Within a gallery setting, this initial price is based on a consideration of cost-of- production type factors with some recognition for artistic merit and originality, marketing and overhead costs for the dealer.

The dealer's commission is usually 40 to 50 precent of the sales price. A good dealer often works through a reputable gallery to position the new artist with select collector-investors who typically revel in experimenting with new art. As more paintings are sold, the gallery may put on a group show followed by a one-man show. Price level will begin to edge up – attributed to a new innovation or a maturing style, increased notoriety, the recognition of a new school and larger canvases with more complex compositions. The one-man show will be followed by exhibitions at local, national and international art fairs and art dealer shows. All the while the artist continues to produce art works – some of which are shown and sold, while others are held as stock by the dealer and the artist to be sold at a later date once market prices have had a chance to appreciate. The price continues to increase as the artist gets greater exposure through the trade media, social soirées, art fairs, art loans to

exhibitions and the dealer's gallery; and, as demand increases among collectors and other dealers, usually through the joint-marketing effort of the dealer and artist.

Another key role of the dealer is to moderate supply so that the emerging market for the artist's work is not prematurely flooded and prices decline. In many ways, it is the artist (and in some cases the art dealer) as modern celebrity and not just his art objects that are being marketed. A significant threshold for the name recognition of the artist and the price of his works is an art loan or exhibition at a museum (e.g., the Whitney Biennial). The museum, especially a major one, is the ultimate forum of aesthetic accreditation. Another threshold is when the artist's work begins to be traded in the secondary market, dealer-to-dealer and at auction.

Since the early part of the twentieth century, this process of creating value for the works of new artists has continued to evolve and the time it takes to rise from unknown to market celebrity seems to have compressed. For Picasso and Matisse it took thirty-five to forty years of working with various dealers to become acknowledged superstars of the art world. For the better known Abstract Expressionists and Pop artists of the fifties and sixties this time was cut in half; and, by the 1980s, the time it took for some SoHo galleries to turn a relatively unknown talent into a rising star was in the range of five to ten years. What is unchanged is that the artists who succeed far outnumber the many who remain in relatively obscurity.

Drawing on Michael C. Fitzgerald's *Making Modernism* (1996) and Phoebe Hoban's *Basquiat* (1998), the following examples usefully illustrate how value is created and prices evolve.[51] In the early years of the last century, Matisse and Picasso were young artists in Paris

trying to eke out a modest living and in search of dealers who would stock their art or, better still, agree to a contract that would provide them with greater financial stability. At the time, they were selling their paintings for one to two hundred francs. For example, André Level, head of *La peau de l'ours*, bought three pictures from Matisse for 550 francs – *Still Life with Eggs* (1896), *Snow Scene* (1899) and *Studio Under the Eaves* (1902).[52] By 1909, when Matisse entered into his first of a series of contracts with the Galerie Bernheim-Jeune, the average price of his paintings had increased four-fold. Under the terms of his contract, the gallery agreed to buy all the paintings Matisse produced over the next three years at preset prices, ranging from 450 francs for the smallest canvas to 1,875 francs for the largest. Matisse was also to receive 25 percent interest in the profits from all sales and to retain the right to take orders for portraits and decorations without compensating the gallery.[53] At the time, these were considered very favourable terms.

Similarly by 1909-1910, Picasso had cultivated a number of collectors and dealers who had become regular buyers of his work, including André Level, Gertrude and Leo Stein, Ambroise Vollard and Daniel-Henry Kahnweiler. For instance in 1906, Vollard, the dealer of the Impressionists and Post-Impressionist, purchased twenty pictures for 2,000 francs from Picasso; in 1908, Level bought *The Family Saltimbanques* (1905), a major work on a large canvas, for 1,000 francs. Picasso would get his first contract in 1912 with Daniel-Henry Kahnweiler. The dealer agreed to pay the artist in the range of 1,000 to 1,500 francs per painting with the intention of doubling those prices in the retail market.[54]

By this time, works by Picasso and Matisse began to appear in the secondary market as other dealers started to sell pieces they had purchased from galleries and individuals. The

most famous sale of their work was *La peau de l'ours* auction (1914) at which Picasso's *Saltimbanques* sold for over twelve times its initial price. Kahnweiler had also started to loan the works of his artists, including Picasso's, to galleries in other countries, most forcefully eastward to Germany, Switzerland and Eastern Europe but also to London and New York (e.g., the 1913 Armory Show in New York).[55] The outbreak of the First World War abruptly ended the first boom in Modern art and severed the Kahnweiler-Picasso association. The dealer had reportedly sold only 40 percent of the paintings he had acquired directly from Picasso. As Fitzgerald put it:

> [Kahnweiler] focussed on building an inventory ... with the goal of holding it until the artists' reputations were sufficiently established for their paintings to command high prices.[56]

Picasso's next dealer, Paul Rosenberg would, in the inter-war years, take over where Kahnweiler left off in working with Picasso to establish his reputation as the premiere Modern master. As Fitzgerald documents, Rosenberg orchestrated, in close collaboration with Picasso, a series of progressively prestigious shows, culminating with the retrospective of his work in 1939-1940 at the Museum of Modern Art in New York (i.e., in conjunction with the Art Institute of Chicago). By the 1920s and 1930s, Picasso's paintings were already selling for thousands of dollars. For example, *The Family of Saltimbanques* was purchased in 1931 by the American collector Chester Dale for $20,000 (about 510,000 francs at the time) from a Swiss Bank which had repossessed the painting when the owner failed to repay a loan for which the work was used as collateral.[57] Some fifteen to twenty years later, as the Western world moved from a war economy to one driven by mass consumerism, this would have been considered a terrific bargain.

Fast forward to the early 1980s'and the young graffiti artist, Jean-Michele Basquiat, we can observe the same basic marketing and pricing strategy. Basquiat's meteoric rise to celebrity status coincided with the 1980s' art boom. Starting his career as a graffiti artist (his tag was SAMO) on the streets of New York in the late 1970s and selling postcards to passers-by for a dollar as a teenager, Basquiat was grouped by some art critics with the loosely formed Neo-Expressionist movement of the early 1980s (other artists included: Sandro Chia, Francesco Clemente, David Salle, Enzo Cucchi). In the case of Basquiat, it was as if the whole international marketing process was moving on fast-forward. Starting with his first exposure as a potentially promising new artist at the *New York/New Wave* show in February 1981, Basquiat's ascendance from obscurity to rising star was dramatic. Immediately following this exhibition a number of important art market experts and international art dealers (including Jeffrey Deitch, Henry Geldzahler, Emilio Mazzoli (Italian art gallery owner) and Bruno Bischofberger (Swiss art dealer linked to Andy Warhol)) began to buy his work. By May, Basquiat had his first solo show in Modena, Italy at the gallery of Emilio Mazzoli. By September, he was represented by the first of a series of professional dealers, Annina Nosei, who ran her own SoHo gallery. By October, his work was part of a group exhibit, *Public Address*, at the Nosei gallery which included the works of Barbara Kruger, Jenny Holzer and Keith Haring. In December, Basquiat along with Keith Haring were featured in an *Artforum* article, "Radiant Child", by Rene Ricard; and in March 1982, he had his first one-man show at the Nosei gallery. This was followed in quick secession by a series of shows in Modena, Los Angeles (with Larry Gagosian), Zurich and New York, including the 1983 Whitney Biennial.[58]

The price of Basquiat's works increased from $1,000 to $1,500 apiece in late 1981 to $5,000 to $10,000 by 1984 when he was represented by Mary Boone, one of the most successful SoHo dealers in the 1980s. Boone initially reduced his price from the $10,000 to15,000 threshold because she thought it had been increased to quickly. The fear was 'too high a price too early in an artist career' could have a negative affect on future price and the artist's 'staying power' as a reliable investment. In February 1985, through the persistent marketing effort of Boone, Basquiat's rising stardom was a feature story in the *New York Times Magazine*.[59]

As early as 1982, his work was being traded in the secondary market (dealer-to-dealer); and in 1984, Christie's sold his first work at auction for $20,900. By the mid to late 1980s, when Basquiat was widely seen as a protégé of Andy Warhol, his pictures were selling for $20,000 to $30,000 apiece through his next two dealers, Bruno Bischofberger and Vrej Baghoomian. These were considered good prices which showed that his market was gaining momentum. By the height of the art boom, and after Basquiat's sudden death in August 1988 at twenty-seven years of age due to a drug overdose, his prices at auction increased ten to twenty-fold. In November 1989, one work, *Arroz con Pollo*, sold at Christie's for $440,000 and another, *In the Field Next to the Road*, sold for $407,000 at Sotheby's.[60]

This dramatic rise in price level within eight years of productive life reflected Basquiat's 'star' value and notoriety, albeit in highly speculative times. As the art market started to show signs of recovery in the mid-nineties, Basquiat's canvases sold in the range of $75,000 to $250,000 at auction. By 2001, his works were once again fetching impressive

prices for Contemporary art. For example, Basquiat's *Baby Boom* (estimate: $700,000-900,000) sold at Phillips for $1.157 million in May 2001 and his *Profit 1* fetched $5.51 million at Christie's one year later.[61] These were excellent prices in a strong Contemporary art market which rebounded quickly from the late 1990s recession. The art market of the past decade and half has declared Basquiat a significant Contemporary artist. Yet, it will take time for art history to tell us whether he will be 'one of those remembered names' at the turn of the next century.

In summary, there is a well-developed method behind the inefficiency and irrationality of our modern art market. And, while art differs from mass produced goods and traditional financial assets, it is a well functioning marketplace conditioned by scarcity and the machinations of aggregate demand within a global economy. It is a market where existing price levels, marketing and preference, based on what the broader art world establishes as quality, interact to influence the formulation of price. More accurate price data would improve the analysis of past performance, help establish more reliable price estimates and reserves, and likely further increase the confidence of collector-investors and financial institutions in future upward price trends. But, as with financial markets and the economy at large, uncertainty is an inherent feature of the art market. One key to understanding the market is the differentiation between the secondary and primary markets and the identity of their respective goods. That is, art works in the primary market are best characterized as durable commodities whose current worth is likely to depreciate over time. Within the secondary market, art works are still durable goods, but as they are defined as aesthetically unique products of human genius their economic identity is also transformed. They become

prized for their 'degree of uniqueness' as the authentic product of a renowned artist. In more simple terms, their value in the marketplace has becomes governed by authorial signature. With rising confidence in the market, based in large part on a strong upward price movement, these unique works of human genius become tangible investment assets which act as a store of value, a speculative asset and a potential source of 'wealth-as-capital'.

Art as Investment

It is one thing to acknowledge that exceptional art works achieve exceptional prices, but quite another for these works to be viewed as exceptional investment assets. Traditional aesthetics, or more specifically nineteenth century Romanticism and early twentieth century Modernism, has instilled in us the idea that these art works, created by genius and representing the greatest of human achievement and potential, have an intrinsic value and are in this respect inestimable. The transformation from mechanical craft to an intuitively creative process and product of human genius played an important role in the changing identity of these works as socially desirable possessions and aesthetically unique objects. It is this idea of art that forms the basis of today's economic valuation of the quality works of notable artists. Since these works are exchanged among dealers and collector-investors, a price is inevitability attached to them. But as well, the economic uniqueness of art works means that we cannot fix their real, long-run price – that is, their economic value is not regulated by standard cost-of-production considerations. These art works are in this narrow sense inherently 'priceless'. From a high modernism point of view, the fact that art and money are directly related and that the accumulation of wealth may be a motivation behind

the trade of art works would appear as a perversion of advanced capitalism. How can something that is valued for its own sake be reduced to the speculative manipulations of the marketplace and used as a financial instrument? This seems to be the insinuation made by the art critic Hilton Kramer, who, when commenting on art prices at the beginning of the 1980s' boom, said:

> 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.[62]

As our contemporary idea on what is art has become more pluralistic, as more studies documenting art's past as a social-economic good are undertaken and as art is accepted as a lucrative investment asset, the high-modernist perspective of critics like Kramer has lost ground. Most artists, dealers, collector-investors, art philosophers and critics, today openly acknowledge the connection between art and money, and the interdependence between their art world and the rest of the economy. Even economists, and certainly financiers, are paying more serious attention to art and its marketplace. Given recent market performance and the diverse nature of art as an economic good, more economists are trying to understand how the market valuates art works and how these works, in turn, perform in comparison to other financial assets. The fact that art may not fit neatly within a model of general equilibrium makes it an even more fascinating area of study for economics, albeit a challenging one, given the data limitations and the related difficulty in applying standard statistical tools and econometric modelling which have become the stalwarts of analysis.

Among the first studies on collecting art for profit is Richard H. Rush's *Art as Investment* (1961). Rush's inquiry attempts to explain the escalating prices for art works in the 1950s by attributing price changes to such factors as increasing affluence, inflation,

higher levels of educational attainment and the growth of museums, particularly in the United States where favourable tax treatments supported the philanthropic practices of foundation building and the donation of art objects to non-profit organizations.[63] The expansionary economic times of the fifties and sixties, and frequent reports of new sales records, supported the belief that art prices, in particular for the works of notable artists, would only continue to increase, making art a reliable store of capital and an apparent hedge against inflation. Indeed, outstanding returns were made by some discriminating collector-investors who had bought decades earlier and by individuals who had speculated on fashionable trends. As Gerald Rietlinger laments in the introduction to volume three of his *The Economics of Taste*, in the 1960s there was a shift in emphasis away from collecting for the sake of art, and what he saw as "acquiring discriminating taste", towards "how to get a return on ... money."[64] In his view, this shift in the practice of art collecting was reflected in:

> [A proliferation of books], graphs and indexes to help *the investor in art* ....[and] the greatest fallacy in all these graphs and charts is.... the total incomprehension of the nature of taste whose vagaries it is that still determine the relative advance of this or that.[65]

What Reitlinger seems to lament is the apparent submerging of aesthetic value within the economic as epitomized not by the discriminating art collector-investor, but by the rise in influence of the investor-speculator within the art market. He also seems to lament the reductive tendencies of some price analysis which equated authorship to number without looking behind the trend lines to a deeper consideration of artistic merit, historical significance and changing taste.

In contrast, Geraldine Keen's book, *The Sale of Works of Art* (1971), celebrates the new attitude towards art as a reflection of a prosperous post-war society. Keen describes this change in the appreciation of art works as a wedding of "the religious and the financial."[66] That is, in her view, this new attitude represented, on the one hand, the realization of art as a civilizing influence with a deep reverence verging on worship and, on the other, the belief that art was a lucrative investment and a hedge against inflation. This sentiment is reminiscent of the warnings of late eighteenth and early nineteen century Romanticism, but with the expressed dread of the instrumentality of capitalism replaced by an unrepentant praise. As Keen puts it:

> The religious aspect is perhaps the more fascinating, as well as being fundamental to the long-term health of the art market, and is interwoven almost inextricably with the financial aspect.[67]

Keen's work provides an enthusiastic description of the art boom of the 1960s and an art market that knows no frontiers.

In 1970, London, with its auction houses and dealers, was the centre of the international art trade and New York, which by the early 1950s had established itself as the centre of the art world for living artists, was soon to become as important as London in the hierarchy of the secondary art market. Keen recounts the remarkable expansion in the volume of trade, the increase in the number of collector-investors, the near doubling of the number of museums and the dramatic rise in nominal prices that marked this period. The Times-Sotheby's price index (1950-1969) is central to her analysis. Really a series of indices for select classes of paintings, many of which were based on only a handful of prices, the Times-Sotheby's index reported double-digit average annual rates of appreciation across most classes of art objects it examined. For example, the appreciation for Old Master paintings and

drawings, was estimated at 11 and 19 percent respectively, for Impressionist paintings the rate was 17 percent, and for Twentieth Century paintings it was 21 percent. The findings of price indices such as Times-Sotheby's were taken as solid evidence supporting a growing conviction that art was a lucrative investment asset. The phenomenal success of contemporary artists particularly at New York galleries such as Leo Castelli's, the growth in the number of artists and art galleries and the success of novice art collectors, such as Robert Scull (a New York City taxis mogul) and his wife Ethel, helped to substantiate this view. In particular, the 1973 auction at Sotheby's of much of the Sculls' collection seemed to prove that significant money could be made over a relatively short period of time, even in the highly volatile Contemporary art market. For example, Robert Rauschenberg's work *Thaw*, purchased by Robert Scull for $900 in 1958, sold for $85,000; and Jasper John's *Double White Map*, worth $10,000 in 1965, sold for $240,000. Overall the Scull's art sale made over $2.2 million. Subsequently, Contemporary art and the works of mid-career artists were taken more seriously by the major auction houses.[68] In hindsight, the Scull's art auction was a bellwether for the art market, marking a new era in the way that art was valued as an investment asset. Nevertheless, at the time very little was known, at an empirical level, about how well art investments performed particularly in comparison to traditional financial assets such as government bonds, treasury bills and corporate bonds and stocks.

Early economic studies on the investment performance of art using financial analysis techniques, most notably by Robert C. Anderson (1974) and John Picard Stein (1973, 1977), found that the overall return on paintings was considerably less than that of similar investments in equities. More precisely, Anderson evaluated the price behaviour of over

1,500 paintings between 1780 and 1974, finding that the period from 1954 to 1974 was the only one when art prices appreciated enough to attract speculation. Over nearly two centuries, the rate of return on older art was about half that for common stocks, while for recent works the return was about the same.[69] Stein, constructing annual price indices for the years 1946-1968 and using a capital asset pricing model, concluded that investment in art is not particularly lucrative and that the expected appreciation is only 73 precent of the return (including capital gains) in the equity market. He also found that the value of paintings is subject to the same ups and downs as the stock market, meaning that they may not be the useful hedge against inflation commonly believed.[70]

These initial financial appreciation studies were followed by others, including Baumol (1986) and Frey and Pommerehne (1989). William J. Baumol constructed a repeated-sales data set containing 640 price pairs over the period 1652-1961 based on a subset of the data documented by Gerald Reitlinger. His results concurred with those of Anderson and Stein, finding that, given a higher risk in the art market, the financial rate of return on paintings is lower than it would be for investments in traditional financial assets (i.e., bonds and stocks). As already mentioned, Baumol also concluded that in the case of art, there was no real (equilibrium) price level and that treating art as investment may only exacerbate the "unpredictable oscillations" of prices.[71] Bruno Frey's and Werner Pommerehne's study, which analysed the performance of 1,198 paintings over the period 1635-1987, also found art as an investment did not do as well as other assets. Over the long-term, art performed less than half as well as government securities. The authors found that art has become "relatively more attractive since the second world war," but even

here the real rate of return was found to be relatively low.[72] Interestingly, the question was no longer whether art was an investment asset, but rather what was its relative performance over time.

These earlier returns studies formed the basis for a series of subsequent investigations into the financial performance of art and collectibles. In part, the unprecedented prices paid for art objects across many classes of works during the art boom of the 1980s stimulated further study. Was art in fact becoming a more lucrative and less volatile investment asset? These investigations all differ greatly in period and length of time covered, genre of art works, minimum length of possession, methodology and other attributes. There are two common methodologies used in estimating art indices and asset pricing: the repeat-sales regression (RSR) model used by several of authors including Goetzmann (1993, 1996), Pesando (1993) and Mei and Moses (2001); and, a hedonic regression that allows the researcher to account for all sales, as used in Chanel, Gerard-Varet and Ginsburgh (1996).[73] As applied to the art market, the RSR method uses the multiple sale prices of individual paintings to estimate the fluctuations in value of an average or representative asset over a given time period. The principle advantage of the RSR method is that the resulting art index is based upon price relatives of the same painting, thus controlling for differences in the quality of assets. The main disadvantage is that given that the index is built from multiple sales, it is a subset of available transactions with resales potentially embodying a sample selection bias.[74] Some form of RSR is the preferred technique in the major of studies reviewed (for a summary of major returns studies see table 8 in the appendix).

All of the return studies have data shortcoming in part due to the nature of their subject matter. For example, multiple sales of unique art works occur infrequently and can often be hard to trace, making it difficult to construct art returns data that can be readily aligned with the periodic returns of traditional financial assets. Art data analyses are based on auction sales which are more transparent in comparison to private sales from dealers, galleries, art shows or artists directly. However, as Frey and Eichenberger (1995) point out, these private sales may be quantitatively more important and show different price movements.[75] For example, the works of well-known Twentieth Century or Contemporary artists may have few auction records as it is not uncommon for a dealer to control most of the market for these works or for the works to be still in the hands of their original buyers. As Goetzmann (1996) points out, using exclusively auction records eliminates the possibility of inclusion in the various art price indices of big profits through the buying of the works of living masters or other, relatively unknown, artists.[76]

Moreover, auction prices are not always transaction prices as paintings that fail to make the seller's reserve may be recorded as sales at the reserve price but are actually 'bought-in' paintings. It is also generally assumed that auction prices are wholesales prices, referring mainly to dealers, and that the average collector-investor, who tends to act through a dealer, actually buys at higher and sells at lower prices. As Frey and Eichenberger surmise, dealers may "enjoy a systematically higher and collectors a systematically lower rate of return" than found in any of the returns studies.[77] Moreover, studies that use a RSR method of analysis may have a built-in selection bias that over estimates the return to art investments. Paintings that do become 'worthless' after their first auction do not appear in these data sets.

Paintings that go to auction two or more times are likely to have a broad enough demand to attract a number of competitive bidders. As well, owners who decide to auction art works supposedly do so because the monetary value has increased and the actual sale is conditionally based on surpassing the 'reserve price'.

In addition, most studies do not take into account transaction costs such as the auction fees, insurance and other handling costs because, historically, these can vary widely across time, countries, auction houses and individual transactions. Auction fees can range widely and, for other than the recent past, are not always well documented. From the late 1970s to the early 2000s, for instance, Christie's and Sotheby's had charged a 10 percent commission to the seller of an art work and a 10 percent premium to the buyer, although these commissions may vary depending on the seller (e.g., for dealers it is less) and on the quality of the painting (note that these fees have been recently increased to 12 percent).[78] Similarly, the impact of taxation on returns on investment are not investigated in these studies. Investing in art may be a useful way of reducing the overall tax burden of an individual or corporation. As with transaction costs, this is difficult to take into account in a quantitative study given differences in tax treatment across countries and time. Finally, not all studies make comparisons to returns on traditional financial assets. In some cases the relevant alternative investment vehicle is not clearly identified. Where comparisons are made it is most often with interest rates on US or UK government bonds, and when comparisons are made with stocks (usually US) dividends are often not considered.[79]

Given the many differences and data shortcomings which characterize art returns studies, the post-nineties' quantitative analyses that provide a point comparison to other

financial assets indicate that over the long-term, art (in particular paintings) as investment gives a return comparable to government bonds. This is a general conclusion and should not be taken to imply that there is a high degree of uniformity of findings within this body of work. Most of these studies construct repeat-sales data sets from various sources and, in general, have relatively large sample sizes which tend to increase the statistical significance and reliability of the results. For example, Mei and Moses (2001) developed an annual art index composed of 4,896 price pairs for the period 1875-1999. This large data set allowed them to create sub-indices for American, Old Masters, Impressionist and Modern paintings for various time periods. The Goetzmann (1993) decade art index based on paintings that sold two or more times, during the period 1715-1986, has 3,329 price pairs. The time periods for both of these studies, in a way, control for the boom-bust cycle of the late 1980s and early 1990s. Goetzmann's study ends with 1986 price data which predates the extreme boom years (1986 being the first year of a five year run). While the Mei and Moses study period includes the boom-bust and much of the subsequent recovery.

The Mei and Moses returns study found that, during the period 1875-1999, art had a higher return (5.6 percent) relative to government bonds (4 percent) and treasury bills (4.3 percent), and a lower return relative to corporate bonds (5.7 percent) and stocks (S&P500 – 11.1 percent; Dow Industrial – 12.4 percent). It also found that the volatility of the art price index dropped over time. The authors took this as evidence that, today, art is no more risky an investment vehicle than government or corporate bonds.[80] Goetzmann (1993), using auction prices from Gerald Reitlinger and Enrique Mayer, as well as long-term financial data from the UK, found that art outperformed both stocks and bonds during the

periods 1850-1986 and 1900-1986, and increased faster than the rate of inflation. For example, Goetzmann's analysis showed that during the first of these periods art prices grew at a mean rate of 6.2 percent while the capital appreciation for the London Stock Exchange was 2.6 percent and UK bond returns were 4.1 percent.[81] However, as Goetzmann pointed out, because of biases due to the use of repeat-sales data, the mean annual return to art investment must be regarded as approximate and an upper bound on the average return. In addition, Goetzman found the increase in art prices, which was particularly strong in the second half of the twentieth century, was coupled with high volatility making it "unlikely that art was a superior investment."[82]

Goetzmann's 1993 study also found a high degree of correlation between its art index and the index of shares traded through the London Stock Exchange which was taken as evidence of a positive relationship between a rising demand for art and increasing aggregate financial wealth. That is, as wealth increases the demand for art also goes up. He further concluded that, while an art collector-investor may assume that a collectible asset is a good hedge against the ups and downs of the stock market, this strong relationship actually implied the opposite. While Goetzmann's analysis supported several earlier studies,[83] the Mei and Moses' art price index showed a much lower correlation with other financial asset classes, indicating that a diversified portfolio of art works may play a somewhat more important role in a portfolio of investments than previously assumed. Another major finding of their study was that masterpieces (defined as expensive paintings) significantly underperformed their respective art market indices, seemingly contradicting the advice most dealers provide to collectors – that is, to buy masterpieces because they hold their value. Mei and Moses

concluded that "past winners (which fetched high sale prices at auctions and became masterpieces) tend to underperform the art market index in the future."[84] In other words, overpaying for a top artists can result in under performance in the future or a "regression to the mean in the art market."[85] However, the evidence here as with the role of art in a diversified investment portfolio is contradictory. Goetzmann's 1996 study of random purchases of paintings suggests that buying the work of a well-known artist is just as likely to provide high returns as buying a work of a lesser-known artist.[86] It is unclear whether the Mei and Moses' finding may be skewed by the extremely high prices attained by Impressionists and Modern art works during the art boom of the late 1980s. These art works were particularly targeted by Japanese investor-speculators many of whom were new to the art market and were still experiencing the benefits of a high-flying Japanese economy spurred by strong export-driven growth, rising stock values and a domestic real-estate boom. Such extraordinary price levels, in particular as achieved in the Impressionist and Modern art sub-markets, were likely attributable to excessive bidding due to investor speculation. Moreover, Mei and Moses suggest that the lower performance in terms of future returns for masterpieces is compensated by a "large unobserved aesthetic consumption yield."[87] This supposition assumes that the typical buyer remains a wealthy collector in the traditional sense versus a new breed of collector-investor or investor-speculator for whom price appreciation matters. From the viewpoint of art as a viable investment asset, this conclusion is less than satisfying as it seems to gloss over changing motivations which may in turn influence preferences.

Theory in Practice

As discussed above and in the previous chapter, the relationship between art and money is a longstanding one that has become more transparent and pronounced throughout the twentieth century, but particularly since the 1970s. There is a whole edifice of institutions, players and market conventions that support and influence aesthetic evaluation and the pricing process, and this is built upon centuries of human experience in creating, collecting, accrediting and trading art works. Over time, there have been shifts in practice that seem to move in tandem with broader changes in our expanding global economic system. For instance, in the fifteenth century, the cost of inputs, complexity of the composition and religious content were key factors in the fixing of a price for murals, sculptures and paintings which were just beginning to be viewed as something more than the output of good craftsmanship. By the seventeenth century and the adolescence of the 'era of art', whether the art work was predominately the product of a master painter versus the work of his apprentices, and whether it bore his signature, became increasingly more important in assessing artistic merit and, concomitantly, in establishing market price. At this time, an original art work produced by the hand of a master was generally three times more expensive than a copy of the same work, with copies making up a significant portion of most art collections.[88] Today, copies of a master's painting are thousands of times less costly than an authentic work and have no, to little, value as investment. At worst, these works may be considered forgeries. In seventeenth-century Holland, it became fashionable for an increasingly affluent business class to decorate their walls with pretty pictures as a way of openly demonstrating their rising stature within their communities, effectively, through the

emulation of landed nobility. In today's individualistic world, pecuniary emulation remains a motivation for possessing art works, and it is the attribution and reputation of the artist, prevailing taste and general price level as well as the expectation of a return on investment that are key factors influencing market price.

These changes over time imply that it is not just a question of subjective wants or the relative evaluation of technical skill or beauty that are important to price formation. Rather, social-historical context and its influence on the relationship between aesthetic and economic value provide an underlying structure for understanding the process of valuing and of regulating price. While in seventeenth-century Holland, the relationship between artistic merit and price may have been observably asymmetric, today there are indications that this relationship is more two-way – with rising prices seen as making, or crystalizing, the reputation of an 'artist-genius' as well as the durability of his works as masterpieces and reliable investment assets. This being said, how does economics aid us in understanding the value and price of art works? How does conventional economics explain the relationship between aesthetic and economic value? How well do the central neoclassical concepts of marginal utility and general equilibrium explain the price formation of art works? Do elements of an alternative vision such as those contained in the writings of Smith, Ricardo, Veblen, Kalecki or Keynes provide aspects of a more informative perspective?

From the viewpoint of mainstream neoclassical economics, anything that yields utility has economic value. Utility is the characteristic of a commodity that makes people want to buy it and it is, at the same time, the satisfaction a person receives from consuming the commodity. In the case of art, utility is equated with the ascribed aesthetic value of an art

work. This utility is described as the private satisfaction a collector receives from possessing an art work which is, in turn, commensurate to the actual purchase price. An added nuance sometimes used to describe art as an investment asset is the dissection of its economic value, or utility, into an expected financial return as well as a private return which is completely subjective (i.e., an aesthetic consumption and social prestige return). This distinction may be used to rationalize why some buyers pay what appear to be exorbitantly high prices for art works. In general, neoclassical economics, which tends to consider social-historical dynamics as peripheral to its study of the workings of markets, seems to further imply that economic value is the general form of all value. For example, William D. Grampp characterizes the relationship between aesthetic and economic value as follows:

> 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.... A consequence of the relation of the values is that the price of a work of art is proportional to its aesthetic utility.... This is another way of saying the prices of things are proportional to their (marginal) utilities.[89]

Taken to its extremes, this point of view supposes that all alternative ways of valuing are subordinate to the economic as they are transformed by the all-encompassing concept of utility. It assumes that the ascribed aesthetic value of a painting by a well-known master is always proportional to its most recent sales price. In this way, aesthetic utility becomes market price – i.e., aesthetic value is made relative and highly subjective.

Grampp also seems to imply that the relationship between the two forms of value is asymmetrical – that aesthetic utility as a form of economic value regulates price. In other words, that demand and subjective wants alone determine price. From this viewpoint, art collectors are like all other consumers. They are rational actors out to optimize their marginal

(aesthetic) utility – that is, to maximize their satisfaction in acquiring one more art commodity as measured against the consumption of other goods and assets for which it is exchangeable. This art consumption is subject to diminishing marginal returns in that as the collector acquires successive increases in the quantity of the sought-after commodity, his desire to acquire one more unit decreases steadily until it dissipates.

This explanation, as discussed in chapters two and three, stems from the 'vision' of neoclassicism and its theory of value and price. From a broad social-economic viewpoint, it does not satisfactorily explain why one person may have a bigger appetite for collecting art works than another, other than to imply that aesthetic utility is highly subjective. The activity of collecting art works is narrowly characterized as the satisfaction of subjective wants, tempered by the ability to pay. The winning bidder places a higher private value on the art work and is able to pay a higher price than the next competitor for a relatively scarce commodity. Price is anchored solely on the demand-side of the equation. It also implies that art collectors become satiated and either stop collecting, or begin to alter what they collect because of a declining aesthetic satisfaction in comparison to other goods and assets (including other classes of art objects). Even other potential financial considerations, such as a possible need for greater liquidity, declining disposable income or wealth, art-portfolio diversification, are held constant so that marginal utility can be shown to explain preference and price. William D. Grampp seems to argue this very point:

> Art is subject to diminishing marginal utility, or, in ordinary language, the more we have of one kind the less do we want still more and the more we do want something else. As a consequence, there will be artists who decline and fall and artists who rise and grow by replacing them. Such change is inevitable where people are free to choose and is all the greater the more choice they have.[90]

For Grampp, who provides a well thought out application of neoclassical doctrine to the practice of creating, trading and collecting art works, it seems possible to explain the succession of new art movements in the twentieth century solely as a consequence of rising incomes and declining marginal utility. That is, as income increases, the decline in satisfaction from possessing more of the same kind of art work can be ameliorated by buying something different – that is, by seeking novelty.[91] Thus, for neoclassical economics, it is demand through changing taste, as based on the principle of declining marginal utility, that governs both price and production. That is, successive art movements are not the primary consequence of the marketing efforts of small groups of artists and dealers working together to create new art and to give it economic value. Instead, novelty and notoriety produced through the vision of the artist are depicted as key factors in the market arising from a sort of 'ready-made' demand for these attributes. Moreover, the impression given by this type of analysis is that this 'ready-made' demand is universal and somewhat ahistorical. In a roundabout way, it also implies that our modern idea of art, which forms a key junction for the changing social-economic valuation of individual art works, has also been constant through time and place.

The point is, historical facts seem to suggest something quite different. Of course artists do try to create with the marketplace in mind, and novelty and notoriety play an important role in the creative process, although what is novel or fashionable does not always prove to be of durable value. New art movements and individual artists, more often than not, have to struggle to gain recognition within a established art world. For example, very few of the Impressionists and Post-Impressionists painters or the realists who came before them

(e.g., Courbet) were major successes in their own lifetimes. Picasso did not experiment with Cubism or create *Guernica* because of market demand. Abstract Expressionism or Pop Art were not immediately accepted by the art establishment of their day. In the real world, artistic production comes first and then a range of factors interact to effect a change in our collective aesthetic judgement which tends to be an amalgamation of various ideas and social norms, including the economic. We must remember that, as with so many of today's mass consumer products, demand was created, through a protracted marketing effort, for the art works of such movements as Impressionism, Post-Impressionism, Cubism, Abstract Expressionism and Pop Art. As David Ricardo pointed out, art is not peculiar in its dependence on "the influence of fashion, prejudice or caprice" of the consumer.[92] The creation of a modern art enterprise was not the workings of some mysterious 'invisible hand', but the result of the collective effort of groups of artists, dealers, critics, art experts and collector-investors, to create new institutions and laws, and to effect a change in the artistic sensibilities of a broader art public. It has been in the social and economic interests of artists, dealers, critics and other members of the art world to promote the 'new' in art forms and to use a malleable aesthetic ideology to give added legitimacy to the visual arts as tradeable works of human of genius.

All markets are the engagement of both supply and demand , but as *homo-economius* we have become so focussed on the transaction that we often fail to look behind the immediacy of exchange to the role of production and how markets are developed and shaped. In other words, we tend to focus on the surface gyrations of price instead of looking to the underlying structures and the social-historical roots of value. As for the broader usefulness

of the concept of marginal utility, it may well provide a reasonable explanation of the collecting patterns of some individuals, but it is not the panacea neoclassical economics claims. But many collector-investors still seem to prefer collecting one or two categories of art works through time and take enjoyment in building depth in their collections. That is, they like to specialize. Such was the case for John D. Rockefeller Jr. and his collection of rare tapestries, Abby Aldridge Rockefeller and her collections of modernist paintings and folk art, Dr. Barnes' collection of Impressionists and Post-Impressionists art works, Solomon R. Guggenheim's collection of Abstract art, as well as many of today's collectors whether their obsession is with Old Master drawings, Chinese ceramics of the Ming era or Contemporary British paintings. These individuals, as well as institutional collectors, seem to want more of the same in order to build outstanding collections of depth. It could be argued that such collector-investors experience greater satisfaction (increasing marginal returns) in continuing to expand their specialized collections – that is, in possessing more, not less, of the same classes of art objects. There are, of course, collectors who cross over to different categories of art and this may be reflective of changing taste or changing financial circumstance or both. Indeed, as William Grampp points out, it is often the newly rich or less wealthy of the well-to-do who experiment with new art. But, while this does seem to reflect a preference for the novel, it is also likely related to differences in their social-cultural backgrounds, the size of their pocket books and, as some may argue, their inexperience with collecting and general lack of knowledge of art and its history. Nor does diminishing marginal utility seem to explain the buying patterns of a collector like Peggy Guggenheim who never seemed to tire of collecting the art of her time from the Paris avant-garde of the 1920s, to Abstract

Expressionism in New York in the late forties and early fifties, to contemporary Italian art in the 1960s. Nor does it explain the behaviour of someone like Isabella Stewart Gardiner who collected many diverse objects from medieval tapestries and religious icons, to Dutch Old Masters, and Grecian and Roman ceramics and sculptures – a woman with discerning tastes and a voracious eclectic appetite for collecting art objects. Both of these women eventually turned their collections and the abodes that housed them into museums. The notion of diminishing marginal utility does not explain collecting as a life obsession nor can it be used to provide a satisfactory explanation of changing tastes. Such attempts to demonstrate the universality of this concept only extends it beyond its usefulness.

Another central neoclassical device as discussed in chapter three is that of general equilibrium analysis which governs real price. As already mentioned, William Baumol makes the case in his 1986 article on art as investment that, at least within the secondary art market (especially, for the works of well-known artists who are no longer living), it is unlikely that there are any long-run equilibrium prices or reliable forces that drive actual prices towards them. His point is that the prices of quality art works are not anchored in the equilibration mechanism that, in principle, regulates other markets. As the economic text books tell us, if the price of a manufactured product is markedly higher than its equilibrium level, then output will be increased and, as a consequence, price will be driven down. For these types of products, the responsiveness of supply facilitates the equilibration of supply and demand to drive actual market price towards the 'natural' or real, long-run price level. In the case of primary commodities, the mechanism works somewhat differently as supply is, in general, less responsive. Here, supply is assumed to be limited by natural conditions

and any marked increase in demand drives prices upward, stimulating further exploitation and exploration of new resources, or the development of substitutes, which can only be brought into production over the longer-term. As Baumol puts it: "Equilibrium price comes equipped with a powerful magnet capable of attracting actual market price to it."[93] For the art works of notable artists, which are characterized by inelastic supply, this mechanism is very feeble to non-existent. From a neoclassical perspective, prices for these works are therefore on a steady upward trend due to rising demand and because supply cannot be markedly increased in the short-term nor, in many cases, even over the long-term. The secondary art market can only be viewed as some sort of anomaly or special case wherein the principle of general equilibrium does not really apply.

What Baumol identifies as the 'inherent rudderlessness' of art prices, is in fact not new to economic theory. It cuts to the core of a centuries-old value debate within political economy on the nature of irreproducible commodities dating back to David Ricardo and encompassing many of the prominent marginalists including Jevons and Marshall. As Michael White reminds us:

> Both David Ricardo ([1819] 1951), writing near the opening, and Alfred Marshall ([1891] 1961), writing near the close of the century, argues that it was not possible to provide a systematic theoretical explanation for the prices of "rare art" and that such commodities could be ignored in a general account of value and price.[94]

But while the conclusions were the same, the reasons given were quite different, so that, as White points out, the "examination of the "rare art" question provides a means of illustrating the significant changes in economic theory" from Ricardo's classicism to Marshall's neoclassicism.[95] These differences are the subject of chapter three and, while there is no need to repeat them here, it is useful to reiterate some key dimensions. It is important to remember

that both classical political economy and neoclassical economics sought to delineate a systemic principle of value that could explain the surface phenomena of market price. In Ricardo's analysis, the main reason for the lack of a systematic explanation of the 'natural' value of irreproducible commodities like rare art was not the uncertainty of demand but the fixed nature of supply. With supply given, the forces of competition, through capital mobility, could not alter production and the effect was to create a monopoly position for the seller. Any competition was on the side of the purchasers and dependent on their "tastes", "caprice", and "power [wealth]."[96] For Ricardo, the market price of rare art was explicable as the "proportion of supply to demand, or demand to supply," but price did not gravitate towards a long-run or "natural" value.[97] The fact that Ricardo admitted that his labour theory of value could not account for such commodities was used by Jevons and others as proof of its invalidity. Yet, Jevons own theory did not account for the value of these commodities, concluding that no "rule" can apply to the "arbitrary fancy" of wealthy individuals.[98] In the case of Marshall, he argued that the market price of rare art depended on the "desire that people have for such pictures and the means at their disposal for purchasing them .... Demand is the sole regulator of value."[99] With respect to a long-run equilibrium price for rare art, Marshall was clear, it is "very much a matter of accident."[100] Thus, in Baumol's analysis, what is old is made new again and we are left with the same quandary. How do we explain art prices and what can be said about the source of their economic value?

A key question is does the model of general equilibrium matter in explaining the formation of art prices? Does it matter in explaining social-economic value? Maybe if you are a 'dyed in the wool' neoclassical economist, but not if we are willing to accept the

possibly of an alternative way of interpreting value and price within our social-economic system. As explored in chapter three, the purpose of value theory in economic thought is to provide a means for linking the real world, in particular prices, to some deeper, order-bestowing principle or structure laying below the surface of economic life. Different value theories provides different ways of interpreting the phenomenal world so that the outward sense of chaos is reduced and a semblance of order provided. Within neoclassical economics, the principle of marginal utility coupled with the model of general equilibrium fills this role. Indeed, marginal utility is positioned as the essence of economic life. A much less tidy approach is to look for the basis of order within social-historical structures and context and to suppose that the accumulation of 'wealth-as-capital' is the *modus operandi* of our capitalist social system. This system is not monolithic or truly universal, but subject to change and periodically permeated by uncertainty and underlying contradictions. The system tends to be self-reinforcing as the accumulation of capital increases aggregate incomes, as the propensity to consume increases with income and as increasing consumption stimulates still further investment in productive capital and other tangible and intangible assets. But it is not deterministic as it can be undermined by changing social-political factors, weak or corrupt institutions and legal regimes, the ups and downs of business cycles, or changing expectations and a loss of confidence in financial markets or the economy as a whole. From this perspective, value and valuing are quintessentially social phenomena which are embodied in customs, conventions, institutions, legal regimes, reference groups, pecking orders as well as inter-generational transfers of preferences and behaviour. We must examine

these practices and behaviours to understand what it is that is being valued and how prices are established.

Adam Smith's and Ricardo's cost-of-production, as modified and updated by economists such as Kalecki who helped to clarify the concepts of prime costs, gross margin (or mark-up) and degree of monopoly, provides the basis for a method of assessing actual market price. As outlined in chapter three, several factors may effect the degree of monopoly including the process of concentration within an industry (whether it is dominated by a few large firms) and the development of marketing techniques such as brand names, credit to buyers and so on. From this perspective, the seller must take into account the prices that other sellers charge for similar commodities that may be considered substitutes by potential buyers. As Ricardo explained, the notion of utility remains as a necessary precondition for exchange and the movements of supply and demand remain central to production, distribution and price formation. That is to say, the concept of utility and the model of general equilibrium remain useful tools. However, it is supposed that it is 'the extent of the market' which provides the basis for economic value and, thereby, establishes a foundation for the formation and movement of actual market prices and long-run, real price. In this way, prices, like the money they are based upon, are socially constructed. Even people's preferences for what they buy, or invest in, need to be viewed as being shaped by institutional considerations, reference groups, inter-generational preferences and broader social norms such as, in the case of art, the centuries-old Romantic idea of the 'artist-genius' and the broader ideology of *l'art pour l'art*.

From this perspective, art prices are established within the context of the proportion of supply to demand, and by the degree of monopoly a particular works commands within the marketplace at a particular point in time. In the case of the art works of notable artists, the owners of such assets benefit from a high degree of monopoly and the relative aesthetic quality of the art work as accredited by the art world (i.e., 'degree of uniqueness'). Moreover, it can be said that accredited authorship becomes a proxy for aesthetic value. However, while an art work by a notable artist may be unique, in the sense that there is only one version of it available on the market at any given time, this does not mean that it has no substitutes. Consequently, art dealers and auctioneers who play a critical role in establishing actual market prices must pay attention to general market conditions, in particular to the levels of supply and demand for each category of art objects, as well as to aggregate demand within the economy as a whole. Moreover, if we think of the works of well-known artists as investment assets instead of durable commodities, the expectation of increasing future returns becomes a consideration in the willingness to pay a higher price in the short-term. Indeed, in extreme boom periods this one factor – the potential for healthy capital gains based on the expectation of continued strong price appreciation – may actually dominate certain market segments (e.g., Impressionists and Post-Impressionist paintings in the late 1980s).

Given this set of circumstances, in particular the relative inelasticity of supply, art prices are not anchored in the principle of general equilibrium or long-run, cost-of-production, but rather in the institutional structures and practices, social conventions and inter-generational preferences that have built up over time, particularly over the last two

centuries. More pointedly, the workings of today's art market is grounded on the premise that tangible art forms, such as paintings, drawings and sculptures, are unique products of human genius which, because of their 'degree of uniqueness' and durability as a store of 'wealth-as-capital', are real investment assets which provide a range of services to their owners. These financial services include: a store of capital, a possible hedge against inflation, a source of collateral for debt financing, a source of long-term financial returns, a possible tax advantage, a potential marketing tool to support other business activities, a source of an aesthetic consumption return, and a social return in terms of prestige and access to potentially influential social-political circles. Art as investment means that prices are subject to dramatic upswings due to bouts of speculation. And, it means that the volume of sales and overall price levels are likely to decline in periods of economic contraction and reduced investor confidence. Moreover, it implies that as long as disposable incomes continues to rise and overall confidence in ascribed aesthetic value or its market surrogate, authorship, is maintained, prices will track upward over the long-term. In this sense, aesthetic value is not a subset of economic value, but rather as John Dewey observed, these are two forms of social value which, within the context of the art market and our global financial system, have become inextricably interlinked.

POSTSCRIPT

> We can forgive a man for making a useful thing as long as he does not admire it. The only excuse for making a useless thing is that one admires it intensely. All art is quite useless.
>
> Oscar Wilde

> Nowadays people know the price of everything and the value of nothing.
>
> Oscar Wilde[1]

As suggested at various junctures throughout this study, the familiar is often not well understood. It is generally accepted as given, almost as an instinctual response to the mundane and unrelenting tempo of contemporary life. And, yet, the familiar often has deep social-historical roots and may have long lasting repercussions as part of our world view and, as a consequence, in terms of the choices we make as members of society. It may be that the conventional wisdom or the familiar pattern of thinking upon which we rely is actually based on some old idea of some supposedly bygone era. In this vein, it does seem that the apparent interchangeability of notions of value and price, wherein value itself is treated as highly subjective and individualistic, have become part of the commonplace reality of our capitalist system of social provisioning. It is not that other planes of value have necessarily ceased to exist, but rather that the economic and financial have become far more pervasive – to the point that they give the outward impression of encroaching upon other spheres of

human activity and of potentially obfuscating meaning associated with other modes of valuing.

The seemingly unbound economic freedom associated with well-functioning capitalist markets does away with any ethical, social or cultural-historical bases or obligations for the choices we make as individuals. From this viewpoint, we are inclined to believe that what we value becomes what we have chosen, and there are no grounds for what we choose except the grounds we give ourselves as economic agents. Governments and regulatory bodies do place limits on the system, but as we look back in time these efforts have not tended to greatly interfere with an underlying faith in a *laissez-faire* ethos within an increasingly rationalized world. Thus, with a general weakening of broader social-humanistic ties, value and valuing have seemingly become more utilitarian and subjective. Moreover, the discipline of economics, or more specifically, its mainstream neoclassical foundations, tends to reinforce this way of seeing as rational expectations. In short, as Michael Harrington suggests in *The Politics at God's Funeral* (1983), what we have in present-day capitalism is an "agnostic" or "valueless system" rooted in an ethic of "compulsory consumerism" and, as others might add, this is, itself, part of the process of capital accumulation.[2] Today, a dissenting voice occasionally decries the extremely individualistic values that underlie this reality, but it is most often a waning utterance from a disenfranchised left or, disturbingly, related to a rising wave of an intolerant religious fundamentalism.

None of this is to underplay the impressive, wide-ranging advancements wrought by this social system. Capitalism, combined with the project of modernity, has given rise to

waves of scientific discoveries and technological breakthroughs, a tremendous diversity of artistic output and cultural expression, an unprecedented expansion of productive capacity, a breakdown of old political and moral hierarchies, an expansion of individual freedoms and, of course, a dramatic accumulation of material wealth and financial capital. However, these social-economic developments have not been without their costs – in particular, in terms of the denigration of the environment, the political-social breakdown of traditional societies, the underdevelopment of many non-western nations and a seemingly diminution in the social fabric of everyday life, in particular, the felt absent of a shared social morality. Harrington further suggests that, for the many of us living in large neighbour-less cities, the lost of social ties has resulted in a "reluctant collectivism" – that is, a capitalist social system characterized by "extremely individualistic values and an increasingly collectivist infrastructure."[3] Or, as Fred Hirsch puts it, the common response to this social atrophy within western society is: "More rules for the common good," imposed as a "civic duty" by a faceless bureaucracy, that must be "adhered to in a culture oriented increasingly to the private good."[4]

At the beginning of a new millennium, as we look back over the last several centuries, it is important to acknowledge that capitalism and the project of modernity have achieved spectacular triumphs. But, as Marshall Berman suggests, for many people, there has also been a lost of "vividness, resonance and depth" as it seems that the system no longer has the "capacity to organize and give meaning to people's lives."[5] And, yet, no new point of synthesis or way of thinking and acting in the world has really come along to replace it. For its part, postmodernism has provided new approaches for re-examining and deconstructing our experiences but, as Jean-François Lyotard suggests, it does not signify the end of

modernity.[6] Indeed, borrowing from George Steiner, it would seem that: "We have come of age but at a price. We have lost a characteristic élan, a metaphysic and technique of 'forward dreaming'."[7] In this world, it is all to easy to reduce all notions of value to price; to believe that the one thing that does have a unifying affect is the power of money; to make money an end in itself, rather than as one of the means for a renewed sense of the possibilities of human development within a finite natural world and as based on shared values of community and understanding.

Art has played its part in this continuously modernizing world. Beginning in the eighteenth century, in particular under the influences of Romanticism and then Modernism, our cultural elite has placed much of its hopes, expectations and fears in the belief that the arts could somehow, even if only momentarily, emancipate us from this bad, transitory world. That is, once thinkers of the Enlightenment such as Pascal and Kant spoke the unspeakable that the existence of an absolute being could not be proven, philosophers have invariable attempted to re-establish the necessity of God's presence (or, alternatively, his felt absence) and, or, to recreate a new unifying point of higher meaning with many giving a leading role to art.[8]

The arts were mythologized – put on the same level as, and often as a substitute for, religious beliefs and philosophical discourse, and made a proper subject of metaphysics. The resulting philosophical re-conception of the arts as Art – as a bearer of an ontological truth and as a unique product of human genius that has an internal purpose – served to remove the arts from the everyday and from a broader community of interests. In romanticizing the arts in this way, their separateness, social purposes as well as the materiality of their origins

tended to be downplayed. As a consequence, the work of art was made more remote – elevated to the status of high culture and made truly accessible only through a knowledge and appreciation of the philosophical and art criticism discourse that grew up around it. In this way, and in particular under Modernism, the past became the first step in a future evolution as a necessary process of historical development. Within the visual arts, this new mission became the modernist search for the inner essence of art with it rapid succession of new movements which seemed to reach a point of anti-climax with High Modernism. In a way, art became inseparable from theory and it remains unclear whether the currents of postmodernism have done anything to change this, although it has certainly ushered in a new era of pluralism and a heightened subjectivity wherein it seems that almost anything can be art.

Philosophically re-evaluated as a bearer of higher meaning and as a unique product of human genius, art became ever more cut off from the deep and tangled roots of its own social-historical experience. It became something totally distinct from other aspects of prosaic life and given an intrinsic value. Layer on top of this the commodification of the arts through a maturing capitalist market system and it becomes ever more difficult to decipher the many orders of meaning that are at play when we ask the question – what is the value in art?

In what would have most likely seemed as a bizarre twist of fate by many of the Romantics, the philosophically re-conceptualization of art, and the creation of a high and low culture, made the various arts more, and not less, susceptible to the machinations of the marketplace. And, in the case of quality paintings, which are relatively easily differentiated

for their uniqueness as one-of-a-kind products of human genius and as private property, they became integrated within the market not only as a durable product but as a investment vehicle, marketing image and speculative asset. In other words, rare art works have become part of financial capitalism as another aspect of portfolio investment. This does not mean that collector-investors, or an art public in general, do not, today, value art for its pleasurable effects and ability to provide nourishment for the human spirit. But, we do run the risk, as individuals and a society, of valuing these rare works, more and more, in terms of their latest sales price and as the expectation of some future financial return.

In using an investigation of our changing idea of art and its marketplace as a way of questioning the way we look at the relationship between value and price (and its roots in the history of economic thought), the objective of this study is to challenge aspects of conventional thinking. That is, the aim is to help build a case for the view that our ideas surrounding economic value and price are more important than we commonly think; that mainstream economic value and price theory have helped to shape a highly subjective world view that undermines other points of social cohesion; and, that, more than this, in an effort to offer a simple explanation of economic phenomena, these various ideas and related analytical methods, present at best a surface impression of social-economic life. The underlying reality is, that there is more to understanding the process of valuing than is alluded to by our various economic theories and pricing models. There is a rich social fabric of value that has to do with the identity of commodities, reference groups, institutional structures, legal barriers, social conventions, norms and tastes which may be inter-generationally transferred. In order to combat the highly subjective nature and reductionist

tendencies of our capitalist system, we must remain open to these deeper social-historical roots and complexities of value in the market. In a way, we must try harder not to take the power of ideas for granted.

On a final note, it is important to emphasize that the highly accomplished work of art remains a useful reminder that there is more to this modern experience of ours than the instantaneity of market transactions, the electronic impulse of information flows, the compulsion to consume and the instant gratification of various sensuous stimuli. Taking a few moments to appreciate a quality art work is a way of stepping outside of the immediacy and sometimes monotony of our fast-pace, routinized way of life. What remains intriguing after all that has been said and foisted onto the meaning of art, is that some works, decades or centuries after their debut, still manage to hold our attention – that is, to offer a deeper sense of joy and to refresh our experience of the world. This is the true wonder of the work of art, not as some ontological truth content but rather, as a vibrant expression of the multi-dimensionality, the beauty and the horror, the sublimeness and the absurdity of a limited human existence within an infinite universe. In this way, the quality work of art can provide nourishment for our sensibilities and our will to think for ourselves as involved members of society. And, yet, in placing this social value within the particularity of the work of art, we must remind ourselves that this is not a necessary function – rather the work of art, to do what it does, must continue to have the "freedom to "mean" nothing" at all.[9] In the end, the quality work of art remains a gift of the human spirit – to be given freely and to be accepted, simply, for what it offers.

APPENDIX

TABLE 1: CHARACTERISTICS OF A MODERN ART BUSINESS, FROM 15TH CENTURY TO PRESENT

	Renaissance Italy (late 15th - 16th centuries)	Amsterdam, Delft, (late 16th - 17th centuries)	England (Late 17th -18th centuries)	France/England (late 18th - 19th centuries)	Global Art Markets (20th century)
Identity of pictures	predominantly religious and didactic images; becomes decorative, luxury good along with jewellery, silverware, etc	decorative, luxury goods along with jewellery, silverware, tapestries, mirrors and furniture	decorative, luxury goods along with jewellery, silverware, tapestries, mirrors and furniture	decorative, luxury goods along with jewellery, silverware, tapestries, mirrors and furniture; start to be treated as unique art works	art works as unique, durable commodities and potential investment asset used as a source of wealth-as-capital
Key technical innovations	perspective painting; use of mirrors and magnifying lens	oils and canvas painting; use of mirrors and magnifying lens; print making	beginning of paint industry based on advances in chemistry; new techniques in print making	photography; new paint colours	film and video, computers and the internet
Identity of artist	skilled artisan; some master painter-sculptors seen as possessing a genius for his craft	skilled artisan; some master painter-sculptors seen as possessing a genius for his craft	skilled artisan with master painter-sculptors seen as possessing genius	transition from skilled artisan/ master artist to creative-genius, bohemian-genius	artist-genius; artist-celebrity
Aesthetic canon	the perfection of the representation of the beautiful in nature and antiquity (mimesis) – (religious, mythological, portraiture)	the perfection of the representation of the beautiful in nature and human society (mimesis) – (portraiture, mythological, historical, landscape)	the perfection of the representation of the beautiful in nature and human society (mimesis) – (portraiture, mythological, historical, landscape)	marks shift from mimesis through various styles such as neoclassical, realism to the beginning of non-mimetic art (impressionist/post-impressionist)	From non-representational formalisms to the 'cult of the new' to pluralism with no formal boundaries between what is or is not art
Arbiter of value	patrons and other artists	patrons, guild masters, artist-dealers, emergence of professional dealers and auctioneers	patrons and international agents, other artists, novice and professional dealers, auctioneers, dealer/print-makers	academy of art and official salon operate alongside modern market; professional dealers, auctioneers, art critics, art historical experts	the marketplace – professional critics, dealers in the primary market; art historians/ curators, dealers, auction houses, art funds, art investment services in the secondary market
Key economic relationship	personal between patron and artisan	personal between patron and artisan; impersonal as artisan produce directly for the market; growth of secondary market (dealer, auctioneer)	personal between patron and artisan; impersonal as artisan produce directly for the market; growth of secondary market; growth of print-seller market	interventionist -- academy, state commissions, official salon; artists produce directly for the market; growth of secondary market; growth then decline print-seller market	primary market – artist and dealer, artist and collector, dealer and collector/ investor; secondary market – dealer, auction house and collector/ investor

	Renaissance Italy (late 15th - 16th centuries)	Amsterdam, Delft, (late 16th - 17th centuries)	England (Late 17th -18th centuries)	France/England (late 18th - 19th centuries)	Global Art Markets (20th century)
Key Institutional feature	trade guilds regulating local producers; master workshops; first art academy in Florence; emergence of the connoisseur- collector	trade guilds regulating local producers; master workshops; beginning of artist-dealers, professional dealers and auctioneers.	trade guilds regulating local producers; key elements of modern market in place: artist-dealers, professional dealers and auction houses; royal academy (1768).	art academy (1648) dominates formal training and accreditation; official salon sales; modern art market: dealers, auctioneers, art experts; rise of new breed of entrepreneur -dealers; art critics; informal groups of artists; the multi-purpose museum	auction houses with global reach; international and local dealers/galleries; multi-purpose and modern/contemporary art museums; international art fairs; art information brokers; collector/investor and corporate collectors; entrance of financial institutions; art funds
Economic value	commission based on patron-artisan relationship; cost-of-production factors including mark-up for quality of craftsmanship; reputation of artist	commission based on personal relationship; cost-of-production factors and genre; reputation of artist; consideration given to attribution, signature and whether picture is an original or a copy	commission based on personal relationship; cost-of-production factors and genre; reputation of artist; consideration given to attribution, signature and whether picture is an original or a copy	genre/style of work, reputation of artist within academy, authorship and historical significance, original versus copy; new paintings favoured by print industry; late in the century, genius of originality and new artistic styles increase in importance	genius of originality and new artistic styles; authorship, historical significance, price performance and potential return on investment
Scope of market	city-state, inter-regional trade and movement of artisans	urban centres, inter-regional trade and movement of artisans	urban centres; intra-continental trade	urban centres; international trade	urban centres; global transactions

TABLE 2: COMPARATIVE PRICES OF SELECT PAINTERS, 1780- 1890

IL VERONESE (1528 - 1588)			GUIDO RENI (1565 - 1642)		
1788	*Woman Taken in Adultery*	£ 191	1773	*St. Cristina*	£ 730/10s
1801	*Marriage of the Virgin*	588	1779	*Immaculate Conception*	3,500
1810	*Venus and Cupid*	808/10s	1801	*Magdelene*	682/10s
1813	*Venus and Mars*	52/10s	1832	*St. Appollonia*	420
1823	*St. Jerome at Prayer*	315	1840	*Magdelene*	430/10s
1840	*Venus and Cupid*	325	1844	*Lot and His Daughters*	1,680
1855	*Adoration of the Magi*	1,977	1850	*Bacchus and Ariadne*	420
1856	*Magdelene at Feet of Christ*	399	1861	*Vision of St. James*	1,312/10s

TITIAN (1480? - 1576)			MURILLO (1617 - 1682)		
1785	*Death of Actaeon*	£ 1,300	1779	*Assumption of Virgin*	£ 700
1795	*The Entombment*	168	1786	*Flower Girl*	900
1801	*Venus and Adonis*	2,750	1801	*Good Shepherd*	2,100
1810	*Rape of Europa*	309/15s	1801	*St. John the Baptist and Saints*	2,100
1817	*Self Portrait*	300	1813	*Holy Family*	2,500
1826	*Salome and Head of St. John*	1,890	1837	*Holy Family*	3,675
1849	*Tanguin and Lucretia*	525	1850	*Assumption of Virgin*	3,000
1876	*Man in Red Cap*	94/10s	1852	*Immaculate Conception*	24,600

GIOVANNI BELLINI (1427-1516)			IL TINTORETTO (1528 - 1588)		
1779	*Holy Family with s\Saints*	£ 60	1795	*Christ Washing Feet of Disciples*	£ 52/10s
1807	*Doge Loredano*	13/13s	1795	*Raising of Lazarus*	168
1823	*St Catherine*	142/16s	1814	*Jupiter and Leda*	220/10s
1844	*Doge Loredano*	630	1856	*Miracle of the Slave*	430/10s
1848	*St Catherine*	37/16s	1882	*Venetian Admiral*	1,155
1852	*St. Fancis, View of Assisi*	735	1882	*Christ Washing Feet of Disciples*	157/10s
1855	*Madonna of the Pomegranates*	300	1886	*Jupiter Nursed by Nymphs*	420
1859	*Madonna with the Parroguet*	315	1890	*Origin of the Milky Way*	1,312

TABLE 2: COMPARATIVE PRICES OF SELECT PAINTERS, 1780- 1890 (Cont'd)

REMBRANDT VAN RYN (1606 - 1669)			BENJAMIN WEST (1738 - 1820)		
1776	*Adoration*	£ 315	1768	*The Departure of Regulus*	£ 420
1792	*The Mill*	525	1771	*The Death of Wolfe*	400
1801	*Tribute Money*	840	1779-83	*Triump of Edward III (3 pictures cost each)*	1,365
1807	*The Rabbi*	882	1783-1801	*Windsor Royal Chapel (8 pictures cost each)*	1,050
1811	*Shipwright and His Wife*	5,250	1811	*Christ Healing the Sick*	3,150
1828	*The Anatomy Lesson*	3,250	1829	*Christ Rejected by Caiaphas*	3,150
1840	*Tribute Money*	630	1829	*Moses Receiving the Laws*	546
1857	*Rabbi*	605	1851	*Penn's Treaty with the Indians*	441

Source: Gerald Reitlinger, *The Economics of Taste*, 1: 241-501 (see individual artists listing).

TABLE 3: TOP PRICES FOR OLD MASTERS AT AUCTION (AS OF 2002)

Year of Sale	Artist	Painting	Nominal Price (£)	Real Price (£ 2002)
2002	**Rubens**	*Massacre of the Innocents*	49,500,000	--
1989	**Pontormo**	*Portrait of Cosimo de Medici*	22,600,000	34,570,000
1921	**Gainsborough**	*The Blue Boy*	148,000	30,970,000
1970	**Velázquez**	*Joan de Pareja*	2,300,000	21,870,000
2000	**Rembrandt**	*Portrait of an Old Lady Aged 62*	19,800,000	20,390,000
1913	**da Vinci**	*Benois Madonna*	310,400	15,470,000
1985	**Mantegna**	*Adoration of the Magi*	8,100,000	15,000,000
1984	**Turner**	*Seascape, Folkestone*	7,300,000	14,600,000
1992	**Canaletto**	*Old Horse Guards*	9,200,000	11,680,000
1965	**Rembrandt**	*Portrait of Titus*	798,000	9,240,000

Note(s): Mantegna's *Descent into Limbo* sold at Sotheby's in New York for $28.6 million in January 2003 (or about £18.4 million (using an exchange rate of £0.645 to $1.0), ranking the picture as the 6th most expensive Old Master ever sold at auction in real terms. 2002 values calculated using the Bank of England's Retail Price Index.

Source: Adapted from "These really are fabulous prices," in *The Art Newspaper*, no. 128 (September 2002), 37.

TABLE 4: SELECT TOP PRICES FOR PAINTINGS, 1880-1914

Year of Sale	Artist & Work	Purchaser	Nominal Price (£)
1879	**da Vinci**, *Virgin of the Rocks*	National Gallery (London)	9,000
1914	**da Vinci**, *Benois Madonna*	Tsar of Russia	310,400
1885	**Raphael**, *Ansidei Madonna*	National Gallery (London)	70,000
1901	**Raphael**, *Colonna Altarpiece*	J.P. Morgan	100,000
1913	**Raphael**, *PanshangerMadonna*	P.A.B. Widener	116,500
1896	**Titian**, *Rape of Europa*	Isabella Stewart Gardener	20,500
1913	**Titian**, *Portrait of PhilipII*	Mrs. J.T. Emery	60,000
1911	**Velázquez**, *Philip IV*	H.C. Frick	82,000
1913	**Velázquez**, *Duke of Olivarez*	Mrs. C. Huntington	82,700
1882	**Rembrandt**, *Hermann Doomer*	Henry Marquand	12,400
1904	**Rembrandt**, *Nicoas Ruts*	J.P Morgan	30,000
1911	**Rembrandt**, *The Mill*	P.A.B. Widener	103,300
1906	**van Dyck**, *Elena Grimaldi-Cattaneo*	P.A.B. Widener	103,300
1914	**van Dyck**, *Paolina Adorno*	H.C. Frick	82,400
1890	**Holbein**, *The Ambassadors*	National Gallery (London)	35,000
1910	**Holbein**, *Christina, Duchess of Milan*	National Gallery (London)	72,000
1911	**Holbein**, *Margaret Wyatt*	B. Altman	51,650
1911	**Gainsborough**, *Beggar Boy and Girl*	J.P Morgan	37,200
1913	**Gainsborough**, *Longford Castle* (replica)*	H.C. Frick	82,700
1910	**Turner**, *Rockets and Blue Lights*	C.T. Yerkes	26,500
1913	**Turner**, *Walton Bridge*	National Gallery (Melbourne)	30,800
1889	**Millet**, *L'Angelus*	Chauchard	32,000
1890	**Millet**, *La Bergère*	Chauchard	48,000
1911	**Millet**, *La Femme à la Lampe* **	H.C. Frick	31,000
1913	**Rousseau**, *The Fisherman*	Clark	33,000

Note(s): *Replica done by Gainsborough, reputed price; record price for Gainsborough at height of portraiture fashion was £148,000 paid by Henry Huntington for *The Blue Boy* in 1921 (see table 2).
** reputed price.

Source: Gerald Reitlinger, *The Economics of Taste*, 1: 241-501 (see individual artists listing).

TABLE 5: SELECT PRICES FOR IMPRESSIONIST AND POST-IMPRESSIONIST PAINTINGS 1880-1959

Year of Sale	Artist & Work	Nominal Price
1884	**Manet**, *Olympia*	£ 400
1889	**Degas**, *L'Absinthe*	180
1890	**Manet**, *Olympia*	774
1892	**Monet**, *Seine à Rouen*	364
1895	**Gauguin**, *Mao Taporo*	14
1899	**Renoir**, *Moulin de la Galette*	420
1900	**van Gogh**, *Maison à la Campagne*	40
1907	**Renoir**, *Charpentier et ses Enfants*	3,500
1912	**Degas**, *Danseuses à la Barre* *	21,000
1912	**Gauguin**, *Papiete*	1,302
1913	**Manet**, *Paveurs de la Rue de Berne*	3,180
1913	**Cézanne**, *Garçon au Gilet Rouge*	3,600
1913	**van Gogh**, *Still Life*	1,450
1918	**Degas**, *La Famille Bellotti*	13,300
1920	**Monet**, *La Tamise à Londres* ?	2,900
1922	**Cézanne**, *Apples on a Plate*	5,000
1923	**Renoir**, *Les Canotiers*	50,000
1924	**van Gogh**, *Cypress Trees*	3,300
1924	**Manet**, *La Serveuse de Bocks*	10,000
1932	**Renoir**, *Child with a Hoop*	4,112
1939	**Cézanne**, *Monte St. Victoire*	4,200
1942	**Renoir**, *Mussel Fishers of Berneval*	38,250
1947	**Degas**, *Dancer Subject (pastel)*	17,750
1952	**Cézanne**, *Apples and Biscuits*	33,700
1958	**Manet**, *Rue Mosnier aux Drapeaux*	113,000
1958	**van Gogh**, *Public Gardens at Arles*	132,000
1958	**Cézanne**, *Garçon au Gilet Rouge*	220,000
1958	**Monet**, *Monet's Child in a Cradle*	30,250
1959	**Gauguin**, *J'Attends Tu Reponse*	130,000
1959	**Renoir**, *Les Filles de Durand-Ruel*	91,075
1959	**Degas**, *Danseuse sur la Siene* ?	64,288

1950	**Picasso**, *Garçon à la Pipe*	$ 30,000

Note (s): (*) Reputed price.

Sources: Adapted from, Gerald Reitlinger, *The Economics of Taste*, 1: 241-501 (see individual artists listing); and, "Early Picasso shatters records at sotheby's," in *The Globe and Mail*, Canada (May 6, 2004), A1, A11.

TABLE 6: PRICES ADJUSTED FOR INFLATION, SELECT WORKS SOLD AT AUCTION, MAY 2000

Artist & Work	Nominal Price (2000)	Prior Date of Sale	Last Price (US$ or £)	Real Price (1999)	% Change
Matisse *La Serpentine* 1909 bronze	14,030,750	05.05.71	95,000	391,000	3488
Monet *Le Portail (soleil)* 1892-94 oil	24,205,750	11.05.87	2,800,000	4,105,000	2010
Toulouse-Lautrec *L'Abandon ou les Deux Amies* 1895 on cardboard	9,355,750	28.06.72	390,000	1,553,000	502
Miro *Le Baiser* 1924 oil	1,652,500	24.06.86	£121,000	276,000	499
Modigliani *La Rousse au Pendentif* 1918 oil	6,275,750	28.06.72	295,000	1,175,000	434
Picasso *Buste de femme Assise sur une Chaisse (Dora Mara)* 1939 oil	4,516,000	18.10.96	852,500	905,000	399
Klime *Untitled* 1961 oil	424,000	- 11.10.88	126,500	178,000	138
Picasso *Compotier et Guitare* 1932 oil	9,905,705	11.05.92	3,850,000	4,571,000	117
Monet *Nympheas* 1908 oil	8,365,750	07.10.95	5,062,500	5,533,000	51
Matisse *Torse Debout* 1909 bronze	189,500	15.10.89	93,500	126,000	50
Modigliani *La Jeune Fille a la Rose* 1916 oil	3,195,750	22.06.93	£1,486,500	2,597,000	23
Diebenkorn *Round Table* 1962 oil	1,271,0001	07.10.89	792,000	1,064,000	19
Degas *Preparation pour la Classe* 1882	5,285,750	30.06.98	£2,641,500	4,500,000	18
van Gogh *Flowers in a Vase* 1890, oil	4,625,750	05.05.98	4,072,500	4,161,000	11
Morisot *Derriere la Jalousie* 1878-79 oil	1,325,750	05.05.98	1,212,500	1,239,000	7
Sisley *La Seine à Bougival* 1873 oil	1,986,000	14.10.90	1,650,000	2,103,000	(6)
Picasso *Partition, Couteille de Porto, Guitare, Cartes à Jouer* 1917 oil	3,200,000 (bought-in)	28.10.89	£1,815,000	3,835,000	(7)
Monet *La Gorge de Varengeville* 1882 oil	2,425,750	07.10.95	1,487,500	2,651,000	(8)
Monet *La Creuse, Soleil Couchant* 1889 oil	1,051,000	09.10.94	1,212,500	1,363,000	(23)
Renoir *La Conversation* 1895 oil	831,000	11.05.87	880,000	1,290,000	(36)
Chagall *Le Violoniste* 1975 oil & tempera	1,381,000	26.06.90	£990,000	2,187,000	(37)
Vuillard *Jardin du Luxembourg* 1917-18 oil	1,542,500	18.09.89	2,200,000	2,955,000	(48)
Pissarro *Un Verger à Pontoise* 1877 oil	431,500	02.04.90	£550,000	1,135,000	(62)
Warhol *Myths* 1981 silkscreen	446,000	07.05.90	1,100,000	1,402,000	(68)

Source: Adapted from, "What happens to art prices if inflation is taken into account," in *The Art Newspaper*, No. 104 (June 2000), 62.

TABLE 7: TOP PRICES FOR PAINTINGS AT AUCTION

TOP PAINTINGS, 1987-1990		
Artist	**Painting**	**Purchase Price**
van Gogh (90)	*Portrait of Dr. Gachet*	$ 82,500,000
Renoir (90)	*Au Moulin de la Galette*	78,100,000
van Gogh (87)	*Irises*	53,900,000
Picasso (89)	*Les Noces de Pierrette*	51,386,623
Picasso	*Self-Portrait: Yo-Picasso*	47,850,000
van Gogh (87)	*Sunflowers*	40,700,000
Picasso	*Acrobate et Jeune Arlequin*	39,921,750
Pontormo (89)	*Portrait of Cosimo de Medici*	35,200,000
van Gogh	*Self-Portrait*	26,400,000
TOP PAINTINGS, 1999-2002		
Rubens (02)	*Massacre of the Innocents*	$ 76,700,000
van Gogh (98)	*Portrait de l'Artiste sans Barbe*	71,500,000
Cézanne (99)	*Rideau, Cruchon et Compotier*	60,500,000
Picasso (00)	*Femme aux Bras Croisés*	55,000,000
Picasso (99)	*Femme Assise dans un Jardin*	49,502,500
Picasso (99)	*Nu au Fauteuil Noir*	45,102,500
Seurat (99)	*Paysage, l'Ile de la Grande Jatte*	35,202,500
Cézanne (99)	*Bouilloire et Fruits*	29,319,170
Rembrandt (00)	*Portrait of "A Lady, Aged 62"*	28,675,000
Degas (99)	*Danseuse au Repos*	27,930,020
LATEST WORLD RECORD		
Picasso (04)	*Garçon à la Pipe*	$ 104,168,000

Note(s): Purchase price includes the buyer's premium. The sale of Picasso's *Garçon à la Pipe* (1903) at Sotheby's New York in May 2004 is now touted as the most expensive painting ever sold at auction when the recent devaluation of the US currency is taken into account. In real terms, Van Gogh's *Portrait of Dr. Gachet* is ranked as the second most expensive painting ever sold at auction ($113.6 million in 2002 dollars), followed by Renoir's *Moulin de la Galette* ($107.5 million in 2002). Van Gogh's *Irises* ($85.4 million) and *Portrait de l'Artiste sans Barbe* ($78.9 million) rank 4th and 5th, and Ruben's *Massacre of the Innocents* is 6th followed in order by: Picasso's *Noces de Pierrette* ($71.4 million) and *Femme aux Bras Croisés* ($67.9 million), Cézanne's *Rideau, Cruchon et Compotier* ($65.3 million), and van Gogh *Sunflowers* ($63.1 million) (2002 values were calculated using US Department of Labor inflation calculator).

Source(s): 1987-1990 price date is from, Peter Watson, *From Manet to Manhattan*, 473; other data is adapted from, "These are really fabulous prices," in *The Art Newspaper*, no. 128 (September 2002), 37; and, various editions of *The Art Newspaper* (1999-2004).

TABLE 8: SUMMARY OF STUDIES ON THE RETURNS ON INVESTMENT IN VISUAL ARTS

Authors	Artwork	Time Period	Return (%)		Return on Alternative Investments (%)
			Real	Nominal	
Anderson (1974)	Paintings in general Late Renais. paintings Impressionist paintings Drawings	1613-1970 1800-1970 1951-1969 1951-1969 1951-1969	3.8	 3.3 7.8 17.2 27.0	approx. 6.6 (stocks)
Stein (1977)	Paintings in general	1946-1968		10.5	14.3 (stocks)
Baumol (1986)	Paintings in general	1652-1961	0.55		2.5 (rough estimate)
Frey and Pommerehne (1989)	Paintings in general Paintings in general	1635-1949 1950-1987	1.4 1.7		3.3 (govt bonds) 2.4 (govt bonds)
Frey and Serna (1990)	Collections of: H. Mettler -- impressionist paintings; G. Guterman – old masterpieces; British rail pension fund – overall Asiatica, old masterp. Impressionist paintings	 1915-1979 1981-1988 sold 1987 sold 1989	 2.8 3.2 6.9 3.0 9.9		 1.2 (Swiss gov bonds) 6.9 (US gov bonds) 7.5 (Fin. Times Index)
Rouget et.al. (1991)	Paintings from 1950s	1960-1990	5.9		
Buelens and Ginsburgh (1993)	Paintings in general Impressionist paintings English paintings	1700-1961	0.9 3.0 0.6		
Goetzmann (1993)****	Paintings in general Paintings in general Paintings in general	1716-1986 1850-1986 1900-1986	2.0 3.8 13.3	3.2 6.2 17.5	4.3 (UK bonds) 1.5 (LSE) 4.1 (UK bonds) 2.6 (LSE) 4.8 (UK bonds) 4.9 (LSE)
Holub et.al. (1993)*****	Watercolours Drawings	1950-1970 1950-1970	15.8 11.3		
Pesando (1993)	Prints	1977-1992	1.5		2.5 (US gov bonds) 8.1 (stocks)
Mok et.al. (1993)	Modern Chinese paintings	1960-1988		53	
Chanel et.al. (1994, 1992)	Paintings of selected artists	1960-1988 1855-1914 1915-1949 1950-1960 1976-1988	6.7 6.2 -2.0 22.6 13.3		higher (Japan stocks) lower (US stocks)
Goetzmann (1996) ******	Paintings in general	1907-1987	5.0		About 5 (stocks over 20th century) 5-10(bonds over 20th century)

Authors	Artwork	Time Period	Return (%)		Return on Alternative Investments (%)
			Real	Nominal	
Mei and Moses (2001)	Paintings in general	1875-1999	5.6		4.0 (gov bonds) 4.3 (treasury bills) 5.7 (corporate bonds) 11.1 (S&P 500) 12.4 (Dow industrial)
	American paintings	1942-1999	6.3		
	Impressionist paintings	1942-1999	6.2		
	Old masters paintings	1900-1999	5.4		

Notes:
- * Only artists who died before 1945;
- ** See Anderson, 1974: 25;
- *** See Buelens and Ginsburgh, 1993: 1358 (table 5);
- **** The data sets are from Reitlinger (1961,1963, 1971) and Enrique Mayer (various years: 1971-1987) which are comprised of a large number of French Impressionist paintings.
- ***** Paintings had about the same performance as drawings; see Holub et.al., 1993: 65;
- ****** Takes into account a 20 percent rate of "obsolescence" – the possibility that an artwork will fall from fashion and become economically worthless.

Source: Revised and updated based on, Bruno S. Frey and Reiner Eichenberger, "On the Rate of Return in the Art Market: Survey and Evaluation," in *European Economic Review*, Vol. 39 (April 1995), 530-31.

NOTES

Introduction: Value, Art and the Market

1. Quoted from the "Trader's Song" from *Die Massnahme* and cited in: Ernst Fischer, *The Necessity of Art: A Marxist Approach*, trans. by Anna Bostock (London: Peregrine Books, 1978), 82. Fischer's book, which is used throughout this study, was first published in German as *Von der Notwendigkeit der Kunst* by Verlag der Kunst, Dresden, 1959. It was first published in English in 1963 by Pelican Books.

2. John Dewey, "Value, Valuations, and Social Facts," in Jo Ann Boydston, et.al. eds., *John Dewey: The Later Works, 1925-1953* (Carbondale & Edwardsville: Southern Illinois University Press, 1989), 16: 310.

3. Ibid.

4. Elizabeth Anderson, *Value in Ethics and Economics* (Cambridge, Mass.: Harvard University Press, 1993), 144.

5. Joan Robinson and John Eatwell, *An Introduction to Modern Economics* (McGraw Hill Book Company (UK) Limited, 1974), 36.

6. In the 1870s , three major works on the new marginalist consensus, which were all independently developed, appeared in quick succession: Jevons's *Theory of Political Economy* first appeared in 1871, Carl Menger's *Grundsätze der Volkswirtschatftlehre* was also first published in 1871; and Léon Walras published his *Eléments d'Economie Politique Pure* in 1874. Alfred Marshall's *Principles of Economics* was published some twenty years later, but is nonetheless also considered one of the founding works of the marginalist or neoclassical school. For reference see: William Stanley Jevons, *Theory of Political Economy*, 5th edition (New York: A.M. Kelley, 1965); Carl Menger, *Principles of Economics*, trans. by J. Dingwall and B. Hoselitz, with intro. by F.A. Hayck (New York: New York University Press, 1976); Léon Walras, *Elements of Pure Economics* (London: Allen and Unwin, 1954); and, Alfred Marshall, *Principles of Economics*, 9th (Variorum) ed., annotated by C.W. Guillebaud, 2 vols. (Macmillan and Co. Limited for the Royal Society, 1961). Please note that, due to difficulties of access, two versions of Marshall's *Principles* are used within this study.

7. Elizabeth Anderson, *Value in Ethics and Economics*, 144.

8. Robert L. Heilbroner, "The Problem of Value," in *Behind the Veil of Economics: Essays in the Worldly Philosophy* (New York and London: W.W. Norton & Company,1988), 104-105. This essay originally appeared in *Social Research*, Summer 1983.

9. Joseph Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), 42.

10. Robert Heilbroner, "The Problem of Value", 107.

11. Adam Smith's *The Wealth of Nations,* first published in 1776, is considered by many the foundational work of modern economic thought. The complete citation for the edition used throughout this study is: Adam Smith, *An Inquiry into the Nature and Causes of Wealth of Nations,* ed. by Edwin Cannan with intro. by Max Lerner, Modern Library ed. (New York: Random House, 1937). The text is copied from the fifth and last edition published (1789) before Adam Smith's death.

12. Kant's third *Critique* was first published in Berlin in 1790 with a second edition appearing three years later in 1793. It was also translated into French as early as 1796 (Imhoff) with subsequent French versions published in 1823 (Keratry and Weyland) and 1846 (Barni). The complete citation for the version used in this study is: Immanuel Kant, *The Critique of Judgement*, trans. J.M. Bernard (New York: Hafner Publishing Company, 1951).

13. Adam Smith, *The Wealth of Nations*, 28-9 (paradox of value), 30, 36, 47-8 (labour value), 29, 47-54 (cost -of-production), 55-63 (natural price).

14. The debate was, in fact, reignited in the 1960s with the publication of Piero Sraffa's *Production of Commodities by Means of Commodities*, and attracts attention periodically within theoretical economics. The full citation is: Piero Sraffa, *Production of Commodities by Means of Commodities* (Cambridge: University of Cambridge Press (1960), 1963). This is briefly discussed in Chapter three – for further references see endnotes 54, 55 and 56.

15. This is a quote from Nassau Senior, a contemporary of David Ricardo who argued against Ricardo's labour theory but who, nonetheless, agreed with his general conclusions on value and art. See Chapter three of this study for further discussion of this point. Also see: Nassau W. Senior, *An Outline of the Science of Political Economy*, ed. by D.D. Raphael and A.L. Macfie (Oxford: Clarendon (1836) 1951), 97. This quote also appears in: Michael V. White, "Obscure Objects of Desire? Nineteenth-Century British Economists and the Price(s) of Rare Art," in *Economics Engagements with Art,* Neil De Marchi and C.D.W. Goodwin, eds. (Durham and London: Duke University Press, 1999), 63. White's article is an important source for this study, in particular Chapter three.

16. Alfred Marshall, *The Principles of Economics*, 1: 332. Also quoted in: Michael V. White, "Obscure Objects of Desire?" 79.

17. See: David Ricardo, *On the Principles of Political Economy and Taxation*, in *The Works and Correspondence of David Ricardo*, ed. by Piero Sraffa with collaboration of M.H. Dobb (Cambridge: Cambridge University Press (1819), 1951), I: 13. The first

edition of Ricardo's *Principles* was published in 1817. Sraffa researched and published Ricardo's collective works including the second edition of *Principles*.

18. Michael V. White, "Obscure Objects of Desire?"

19. Various anthologies or 'aesthetics readers', through the careful selection of text, can give the unintended impression that aesthetics as a field of philosophical inquiry is somewhat supra-historical, and that the idea of the fine arts as a distinctive mode of activity sharing common principles is somewhat timeless. Martha Woodmansee makes this point in her 1994 work *The Author, Art and The Market.* Only once the layers of theorizing are peeled back, and one becomes more familiar with the history of the idea of art, does the social-cultural significance of a modern notion of art become apparent. See: Martha Woodmansee, *The Author, Art and the Market: Rereading the History of Aesthetics* (New York: Columbia University Press, 1994). Samples of readers reviewed in the preliminary research for this work include: Katharine Everett Gilbert and Helmut Kuhn, eds., *A History of Esthetics: Revised and Enlarged* (Westport, Conn.: Greenwood Press Publishers, 1953); Morris Weitz , ed., *Problems in Aesthetics*, 2d ed. (New York: Macmillan (1959), 1970); Peyton E. Richter, ed., *Perspectives in Aesthetics: Plato to Camus* (Indianapolis: The Odyssey Press, 1967); John Hospers, ed., *Introductory Readings in Aesthetics* (New York: the Free Press, 1969); Moshe Barasch, ed., *Theories of Art: From Plato to Winkelmann* (New York: New York University Press, 1985); Stephen David Ross, ed., *Art and Its Significance: An Anthology of Aesthetic Theory*, 3d ed. (Albany: State University of New York Press, 1994); and, David E. Cooper, ed., *Aesthetics: The Classic Readings* (Malden, Ma.: Blackwell Press, 1997).

20. The influence of Kant's *Aesthetic Judgement* is widely acknowledged and some might argue overstated, given the way in which a number of its key concepts have subsequently been reinterpreted in ways that Kant himself would have likely disagreed with. This point is further explored in Chapter four. For an interesting interpretation of Kantian aesthetics and its influence see: Jean-Marie Schaeffer, *Art of the Modern Age: Philosophy of Art from Kant to Heidegger*, trans. by Steven Rendall (Princeton: Princeton University Press, 2000).

21. See: Paul Oskar Kristella, "The Modern System of Art: Part I and II," in *The Journal of the History of Ideas*, vol. 12 (1951), 496-527, and vol. 13 (1952), 17-46. Kristella's essay was subsequently reprinted in: Morris Weitz, ed., *Problems in Aesthetics*, 2[d] ed. (1970). Also see: Martha Woodmansee, *The Author, Art and the Market.*

22. Constance Marie Charpentier (born Blondeau) trained under Jacques-Louis David and although her work was admired (she received a gold medal from the Musée Royale in 1819) many of her paintings cannot be identified today. Her most famous painting, *Mademoiselle Charlotte du Val d'Ongres* was attributed to David until the 1950s. Reference is from: Estella Lauter, "Re-enfranchising Art: Feminist Interventions in the Theory of Art," in *Aesthetics in Feminist Perspective*, H. Hein and C. Lorsmeyer, eds.

(Bloomington: Indiana University Press, 1993), 23.

23. "The Getty Museum's *Samson destroying the temple*: Attribution trial," in *The Art Newspaper*, vol. x, no. 91 (April 1999), 1.

24. See: John Berger, *Ways of Seeing* (British Broadcasting Corporation and Penguin Books, 1972), 23. Walter Benjamin's essay "The Work of Art in the Age of Mechanical Reproduction" is an important source for the thesis put forward by John Berger. The complete citation is: Walter Benjamin, "The Work of Art in the Age of Mechanical Reproduction," in *Illuminations*, ed. with intro. Hannah Arendt, trans. Harry Zohn (New York: Schocken Books, (1969), 1985) 217-252. This book of collected works was first published in German in 1955 by Suhrkamp Verlag, Frankfurt.

25. See: Edward Lucie-Smith, *The Thames and Hudson Dictionary of Art Terms* (Thames and Hudson, 1991), 21; Michael Kelly, ed., "Art for Art's Sake," in *Encyclopedia of Aesthetics* (Oxford: Oxford University Press, 1998), 1: 118-120; and, Iredell Jenkins, "Art for Art's Sake," in *The Dictionary of the History of Ideas*, ed. by Philip P. Wiener (New York: Charles Scribner's Sons, 1968), I: 108-111.

26. The discourse regarding the essence of art – or more precisely, whether an art work has an internal essence which makes it art – is longstanding. This question cuts to the very heart of our modern idea of art and has been subject to much debate from many angles of argumentation. For many, Marcel Duchamp's 'ready-mades' (e.g., *Fountain* (a urinal, 1917)) represented a new point of departure. For some (including the artist), these art works were viewed as a deliberate attack on the established art world and its definition of art. From this perspective, they supported a radical non-essentialist stance – that is, art does not have some pure essence, but is what we think of it (i.e., everything and nothing is art; it is at most an intuitive expression). For others, they were interpreted as supporting certain Modernist notions of 'artworkness' such as formalism. Still others saw 'ready-mades' as supporting a definition of art based on physicality and the established, institutions-based practices of conferring art status. Perhaps, one of the best known articulations of a non-essentialist position is Morris Weitz's 1956 essay, "The Role of Theory in Aesthetics". Weitz argues that there is no property common to all and only art works (i.e., there is no attribute necessary for something to be an art work). For further discussion see: Stephen Davies, *Definitions of Art* (Ithaca and London: Cornell University Press, 1991); Arthur Danto, "Modalities of History: Possibilities and Comedy," in *After the End of Art: Contemporary Art and The Pale of History*, The A.W. Mellon Lectures in the Fine Arts, 1995 (Princeton: Princeton University Press, 1997); Marcel Duchamp, "Painting ... at the Service of the Mind," in *Theories of Modern Art: A Source Book for Artists and Critics*, ed. by Herschel B. Chipp with contributions by Peter Selz and Joshua C. Taylor (Berkeley: University of California Press, 1984); Steven Goldsmith, "The Readymades of Marcel Duchamp: The Ambiguities of an Aesthetic Revolution," in *The Journal of Aesthetics and Art Criticism*, vol. 42 (1983), 197-208; P.N. Humble, "Duchamp's Readymades: Art and Anti-Art," in *The British Journal of Aesthetics*, vol.

22 (1982), 52-64; Morris Weitz, "The Role of Theory in Aesthetics," in *The Journal of Aesthetics and Art Criticism*, vol. 15 (1956), 27-35; Richard Wollheim, *Art and Its Objects*, 2d ed. (Cambridge: Cambridge University Press, 1980).

27. The term 'culture industry' was coined by Theodor Adorno and Max Horkheimer in their book *Dialectic of Enlightenment*. It was used to distinguish the cultural and entertainment enterprise of advanced capitalism from any agreeable interpretation of mass culture as arising spontaneously from the masses themselves as a form of popular art. Their analysis of the 'culture industry' was a critique of mass culture consumerism wherein the industry was portrayed as intentionally integrating an unconscious consumer within a prefabricated pseudo-culture based on capitalist production and exchange (i.e., providing a range of cultural products that pacified the masses and removed any possibility of a genuine, non-formulaic experience). See: Max Horkheimer and Theodor W. Adorno, *Dialectic of Enlightenment*, trans. by J. Cummings (New York: Continuum, 1990). This work was completed in New York in 1944 when Horkheimer and Adorno were living in exile from Nazi Germany. It was first published in German as *Dialektik der Aufklärung* by Querido in 1947. The first English translation was published in 1972 by Herder and Herder Inc. In addition, the reader may also want to read: Theodor W. Adorno, "Culture Industry Reconsidered," in *The Culture Industry: Selected Essays on Mass Culture*, ed. with intro. by J.M. Bernstein (London: Routledge, 1991), 85-92. This essay was a reprint of: Theodor W. Adorno, "Culture Industry Reconsidered," in *New German Critique,* trans. by A.G. Rabinbach (fall 1975), 12-19.

28. The concept of an 'artworld' was first explored by Arthur Danto in a 1964 article. See: Arthur Danto, "The Artworld," in *The Journal of Philosophy*, vol. 16 (1964), 571-584. This concept was subsequently reinterpreted by George Dickie as a cornerstone of his institutional theory of art which emphasized physicality, extrinsic properties and social relations in order to distinguish art objects and practices. In contrast, Danto's notion was more ontological than institutional, stressing that art belongs to the world of interpreted things which includes a knowledge of the history and theory of art. See: George Dickie, *Art and the Aesthetic: An Institutional Analysis* (Ithaca and London: Cornell University Press, 1974). The reader may also want to review: Arthur C. Danto, "The Transfiguration of the Commonplace," in *Journal of Aesthetics and Art Criticism*, vol. 33, 139-148.

29. Theodor Adorno, "Culture Industry Reconsidered," 86.

30. John Berger, *Ways of Seeing*, 21.

31. David Ricardo, *Principles*, I: 383-385. Also as quoted in: Michael V. White, "Obscure Objects of Desire?" 60.

Chapter 2: Our Vision of Things

1. Quoted from Adam Smith, *The Wealth of Nations*, 28.

2. As Joseph Schumpeter has documented, Smith was not the first to use the water-diamond illustration in discussing the paradox of value. John Law provided such an account as early as 1705. For a brief but concise history, up to an including the *Wealth of Nations*, see: Joseph Schumpeter, "Digressions of Value," in *History of Economic Analysis*, 300 -311.

3. Adam Smith, *The Wealth of Nations*, 28-29.

4. Ibid., 28.

5. Ibid.

6. Over a decade later, Van Gogh's *Dr. Gachet* still represents one of the highest price ever paid for a picture, while other sports superstars from Beckman (soccer) to Alex Rodriquez (baseball) continue to earn extremely valuable contracts (e.g., Rodriquez (2004) with the Yankees has a ten-year $252 million contract – this figure does not include earnings from endorsements). See: Godfrey Barker, "Four things you can do with an Impressionist besides look at it," in *The Art Newspaper*, no. 9 (June 1991), 9; and, John Gregory Dunne, "Birth of a salesman, " in *The New York Review of Books*, vol. XLVI, no. 12 (July 15 1999), 13.

7. Max Horkheimer and Theodor W. Adorno, *Dialectic of Enlightenment*, 158.

8. The one approach to economic value not linked to *The Wealth of Nations* is the normative approach. This represents the oldest attempt to elucidate the foundation of economic value and predates capitalism as the dominant social order in the Western world. It involves a normative determination of standards of price, or other economic activity, and is characterized by a concern for an economic system that is 'good' as well as functional. That is, the proponents of this approach are predominantly concerned with the ethical problem of 'fairness' in pricing for the producers, intermediaries and buyers of goods. Aristotle's 'commutative justice' and Thomas Aquinas' 'just price' are often cited as examples. For a discussion the reader may see Joseph Schumpeter on "Aristotle's 'Pure' Economics" and "St. Thomas" in the *History of Economic Analysis*, 60-65, 90-94. On Aquinas's "just price", see: Ronald L. Meek, *Studies in the Labour Theory of Value* (London: Lawrence & Wishart, 1973), 13-14; and, Odd Langholm, *Price and Value in the Aristotelian Tradition: A Study in Scholastic Economic Sources* (Bergen: Universitetsforlaget, 1979).

9. The rich literature on economic sociology includes among others: St. Thomas Aquinas (1225-1274) and his 'pure economics' which took as a starting point Aristotelian 'commutative justice' as a basis for 'just price'; John Duns Scotus (a thirteenth century

Franciscan) who related 'just price' to costs; the Jesuit, Luis de Molina (1535-1600), who maintained that cost was an important determinant of exchange, identified value as based on wants and their satisfaction, and established an embryonic utility theory of exchange; as discussed above Ferdinando Galiani (1728-1787); François Quesnay (1694-1774), as the most renowned of the physiocrats and arguably a founding father of utilitarianism, who made a number of significant contributions towards a theory of capital and adapted Richard Cantillon's (1680-1734) simplified analytic schema of the *tableau économique* that distinguished difference classes or groups and their economic transactions; Anne Robert Jacques Turgot (1727-1781), a French Minister of Finance, whose chief work *Réflections* (1766), sketched a system of economic theory covering value and price, a schema of classes and an analysis of their relations in production and distribution, as well as a theory of capital, savings and investment; and, Cesare Bonesana, Marchese di Beccaria (1738-1794), a Milanese civil servant, whose lecture notes *Elementi* (published posthumously in 1804) outlined a theory of value and price based on utility and scarcity. These are but a few of the contributors to the early development of economics presented with the purpose of providing a sense of the state of economic knowledge by the late seventeen hundreds. For a thorough reading of the early history of economics see chapters one through four of Part II of Joseph Schumpeter's *History of Economic Analysis*. For other sources also see: Samuel Hollander, *Classical Economics* (Toronto: Basil Blackwell Ltd., 1992), 15-58; Odd Langholm, *Price and Value in the Aristotelian Tradition*; Odd Langholm, *Economics in the Medieval Schools* (Leiden and New York: E.J. Brill, 1992); Ronald L. Meek, *The Economics of the Physiocracy* (London: Unwin, 1962); Ronald L. Meek, ed., *The Precursors of Adam Smith* (London: Rowan and Littlefield, 1973); and, Ronald L. Meek, *Studies in the Labour Theories of Value*.

10. Joseph Schumpeter, *History of Economic Analysis*, 301.

11. See: Alfred Marshal, *Principles of Economics*, 1: 758. Marshall regarded Smith the "founder of modern economics" in that "he was the first to make a careful and scientific inquiry into the manner in which value measures human motive, on the one side measuring desire of purchasers to obtain wealth, and on the other the efforts and sacrifices (or "Real Cost of Production") undergone by its producers" (1: 757, 758-759).

12. For Schumpeter, Smith's original achievements lay not in analytics and method, but in the policies he advocated such as *laissez-faire*, colonial policy and so on. See: *History of Economic Analysis*, 184-185. For others, such as Paul Ormerod, Smith's achievement is the combination of description, analytics and prescription which made his work more easily understood and relevant to both a broader public and policy makers of the day. See discussion in chapter one of Ormerod's book, *The Death of Economics* (New York: John Wiley & Sons, Inc., 1994), 12-15. The reader may also want to see: Michael Fry, ed., *Adam Smith's Legacy: His Place in the Development of Modern Economics* (London and New York: Routledge, 1992).

13. Joseph Schumpeter, *History of Economic Analysis*, 51 (fn 1). The term "classical situation" is not to be confused with other usages, such as the classicals or classical economics which refers to such thinkers as Adam Smith, David Ricardo, Karl Marx and John Stuart Mill among others. It is also important to note that for Schumpeter a "classical situation" was not in itself a high point of analytical achievement, but more a point of "punctuated equilibrium" to borrow from Stephen Jay Gould – that is, a point of stasis and consolidation marked by wide-spread agreement.

14. Ibid., 52.

15. Ibid., 52 (fn 2). Schumpeter's "classical situation" is an effort from within economics to discuss the periodization of economic analysis. Other attempts have used Popperian, Kuhnian and Lakatosian methodological viewpoints to explain the development of economics. It is important to note that these latter perspectives were designed to explain the history of ideas within the natural sciences and thereby may not be directly adaptable to economics which is concerned with social phenomenon. For a discussion of the merits of Schumpeter's concept versus other methods of periodization see: Robert Heilbroner and William Milberg, *The Crisis of Vision in Modern Economic Thought* (Cambridge and New York: Cambridge University Press, 1995), 14-20. For an application of Popper's positivism see: Milton Friedman, "Essay on the Methodology of Positive Economics," in *Essays on Positive Economics* (Chicago: University of Chicago Press (1953), 1966). For examples of the use of a Kuhnian perspective see: A.W. Coats, "Is There a 'Structure of Scientific Revolutions' in Economics?" *Kyklos*, vol. 22 (1969), 289-96; and D.F. Gordon, "The Role of the History of Economic Thought in the Understanding of Modern Economic Theory," in *The American Economic Review*, vol. 55 (1965), 119-27. For a comparison of Kuhnian and Lakatosian perspectives see: Mark Blaug, "Kuhn versus Lakatos *or* Paradigms versus Research Programmes in the History of Economics," in Spiro J. Latsis, ed., *Method and Appraisal in Economics*, (Cambridge University Press, 1976), 149-80.

16. Joseph Schumpeter, *History of Economic Analysis*, 41-42. For a discussion of 'vision' and its relation to ideology the reader may also want to see Schumpeter's essay, "Science and Ideology," in *American Economic Review*, vol. 39 (1949), 345-59. To further explore the idea of economic knowledge as something that is socially constructed see: E. Roy Weintraub, *Stabilizing Dynamics: Constructing Economic Knowledge* (Cambridge: Cambridge University Press, 1991).

17. Joseph Schumpeter, *History of Economic Analysis,* 42.

18. See Joseph Schumpeter, "Science and Ideology".

19. Maurice Dobb takes this point even further in challenging Schumpeter's view of the neutrality of the method and tools of economic analysis. For Dobb, the separation of analytics and vision – which is evident in the current prominence of econometrics and

rational expectation theory – seriously reduces economic theory's explanatory capacity of social action and behaviour. See: Maurice Dobb, *Theories of Value and Distribution Since Adam Smith: Ideology and Economic Theory* (Cambridge: Cambridge University Press, 1973), 11.

20. Robert Heilbroner and William Milberg, *The Crisis of Vision*, 20.

21. Ibid., 20-22.

22. Joseph Schumpeter, *History of Economic Analysis*, 380.

23. Paul A. Samuelson, *Economics: An Introductory Analysis,* (New York.: McGraw-Hill, 1948). Also see: Robert Heilbroner and William Milberg, *The Crisis of Vision*, 42.

24. Robert Heilbroner and William Milberg, *The Crisis of Vision*, 20, 25-47.

25. The quote is from: Karl Marx, *Theories of Surplus Value*, part 2 (London: Lawrence and Wishart, 1968), 495. Also as cited in: John Eatwell, "Theories of Value, Output and Employment," in *Keynes' Economics and the Theory of Value and Distribution*, ed. by John Eatwell and Murray Milgate (Oxford and New York: Oxford University Press, 1983), 101.

26. As cited in: John Eatwell, "Theories of Value, Output and Employment," 124.

27. Robert Heilbroner and William Milberg, *The Crisis of Vision*, 104-105.

28. Brandon Taylor, *Modernism, Post-Modernism, Realism: A Critical Perspective for Art* (Winchester, Hampshire: Winchester School of Art Press, 1987), 77.

29. Max Horkheimer and Theodor Adorno, *The Dialectic of Enlightenment*, 120-167.

30. Theodor Adorno, "Culture Industry Reconsidered," 85-86.

31. Ibid.

32. Ibid., 86.

33. Dwight MacDonald developed the concepts of "masscult' and "midcult" as a way of explaining the homogenization of forms of artistic expression. For MacDonald, masscult refers to forms of mass entertainment such as rock music, Hollywood movies, radio and television broadcasting, sports, Harlequin romance novels, magazines. Masscult pretends to be popular culture. Midcult, on the other hand pretends to be high art. It pretends to respect the standards of high art while in fact it vulgarizes them. MacDonald provides a number of examples of midcult: the folk-fakery of *Oklahoma!*, the transition form Rodgers and Hart to Rodgers and Hammerstein, *Reader's Digest*, *Life*, etc. MacDonald's and Adorno's essays still carry some analytical weight, however, they can also both be

seen as a Marxist defence of a high modernist view of artistic production. See: Dwight MacDonald, "Masscult & Midcult," in *Against the American Grain* (London: Victor Gollancz Ltd., 1963), 3-75.

34. See: J.M. Bernstein, "Introduction" to Theodor Adorno, *The Culture Industry: Selected Essays on Mass Culture*, 4-5.

35. Elements of a capitalist system were evident in Europe prior to the late fifteenth century, but it is not until this time that laws and practices surrounding finance became more fully established. This being said, some many argue that it was not until the seventeen hundreds that we begin to see local economies in which the market became central to the production and distribution of goods. Moreover, it is important to note that monarchs and the aristocratic landowners of the feudalist social order (i.e., wherein land was the principle means of production, and control of it largely a function of political and military power) remained the dominant social class in many jurisdictions well into the nineteenth century. See: Joseph Schumpeter, *History of Economic Analysis*, 78 (fn 1), 144. For another perspective on the evolution of capitalism as a social system, one that takes into account the views of a diverse range of thinkers from various fields, see: Jerry Z. Muller, *The Mind of the Market: Capitalism in Western Thought* (New York: Anchor Books, 2002).

36. The idea that variations on capitalism exist through time and location, and that its form is contingent on social-cultural values, is not new. For a recent account of this thesis see: Francis Fukuyama, *Trust: The Social Virtues and The Creation of Prosperity* (New York: The Free Press, 1995). Similarly, the contention that capitalism has entered a new phase or that we are living in a new economy has been explored by various authors. For examples see: Charles Leadbeater, *Living on Thin Air: The New Economy* (London: Viking, 1999); Thomas Friedman, *The Lexus and the Olive Tree: Understanding Globalization* (New York: Anchor Books, 2000); OECD, *The New Economy: Beyond the Hype*, the OECD Growth Project (Paris: OECD, 2001); and, Chang-En Bai and Chi-Wa Yuen, eds., *Technology and the New Economy* (Cambridge, Mass.: MIT Press, 2002). For a leftist perspective on the transformation of twentieth century capitalism as part of a broader shift from Modernity to Postmodernity see various chapters (all of Part II, chapters 20, 22, 23) in: David Harvey, *The Conditions of Postmodernity* (Cambridge, Mass.: Blackwell, 1990).

37. Adam Smith's preoccupation with the moral framework of society is well known as he was chair of moral philosophy at the University of Glasgow, and in 1759 authored *Theory of Moral Sentiments*. For reference see: Adam Smith, *Theory of Moral Sentiments*, ed. by D.D. Raphael and A.L. Macfie (Oxford: Clarendon Press; New York: Oxford University Press, 1976).

38. Karl Marx's lifework, as outlined in *Grundisse* (1857), was to be a massive six part study on the political economy of a capitalist social system of provisioning. Part one

expanded into the 3 volumes of *Capital*. Volume One was published in 1867 and the other two volumes remained in draft form only and were subsequently edited by Engels after Marx's death. Volume One deals with the process of production, capital accumulation and notions of value, including Marx's conception of surplus value. As will be discussed in Chapter three, for Marx, labour alone created value – it both reproduces the equivalent of its own value (i.e., what is takes to reproduce its own labour power) and an excess or surplus value. See: Karl Marx, *Capital: A Critical Analysis of Capitalist Production*, vol. 1 (Moscow: Foreign Language Publishing House, 1954); and, Karl Marx, *Capital: An Abridged Edition*, ed. with intro. by David McLellan, The World's Classics (Oxford and New York: Oxford University Press, 1995).

39. See: Karl Marx, *Capital: An Abridge Version*. Also, for an informative discussion of Marx's analysis of capitalism and its unique features see: Chapter five in: David Harvey, *The Condition of Postmodernity*, 99-112.

40. This phrasing is part of a famous quote from the *Communist Manifesto,* partially used in chapter 4 (fn 26) of this text. See: Karl Marx and Friedrich Engels, *Communist Manifesto,* intro. by Eric Hobsbawn (London, New York: Verso, 1998), 25; or, Karl Marx and Friedrich Engels, "Communist Manifesto" in Robert E. Tucker, ed., *The Marx-Engels Reader*, 2d ed. (Norton, 1978), 475-76. Also as cited in: Marshall Berman, *All That is Solid Melts into Air: The Experience of Modernity* (New York: Simon and Schuster, 1982), 95; and, David Harvey, *The Conditions of Postmodernity*, 99-100.

41. Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. by Talcott Parsons with intro. by R.H. Tawney (New York: Charles Scribner's Sons, 1958), 180. *The Protestant Ethic* was first published in 1904-05 in the *Archiv für Sozialwissenschaft und Sozialpolitik* (volumes xx and xxi) and reprinted in 1920. Parsons' 1958 translation is based on the 1920 edition which contained considerable changes including replies to criticisms in footnotes. For a discussion, see: chapter eleven of Irving M. Zeitlin, *Ideology and the Development of Sociological Theory,* 2d ed. (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1981), 127-170; and, Jürgen Habermas, "Modernity's Consciousness of Time," in *The Philosophical Discourse on Modernity: Twelve Lectures,* trans. by F.G. Lawrence with intro. by T. McCarthy (Cambridge, Mass.: MIT Press, 1987), 1-22.

42. See: Joseph Schumpeter, *Capitalism, Socialism and Democracy*, 3d ed. (New York: Harper and Brothers, 1950), 81-6. This work was first published in 1942.

43. David Harvey, *The Condition of Postmodernity*, 230.

44. Ibid., 105.

45. Ibid., 230.

46. This data was found on-line as part of a training package offered by Unitar on the legal aspects of debt, financial management and negotiations. More specifically see the

on-line resource centre, chapter seven on "Specific Issues Involving Loan Agreements", http://www.unitar.org.

47. For figures on the inflow of FDI and cross-borders mergers and acquisitions see: United Nations Conference on Trade and Development, "Overview" in *World Investment Report 2001: Promoting Linkages*, Internet ed. (New York and Geneva: United Nations, 2001), 1-2.

48. These figures are available from a variety of sources on-line. For example, Century Financial Brokers LLC (http://www.century brokers.biz) and MG Financial Group (http://www.forex-mg.com) utilize them in their descriptions of the history of the contemporary foreign exchange market. It is also cited in written sources including: Adair Turner, *Just Capital: The Liberal Economy* (London: Macmillan, 2001), 12.

49. As illustrated in the 2001 UNCTAD report on world investment, FDI inflows as well as cross-border mergers and acquisition are growing at a faster rate than world GDP. See "Table 1: Select Indicators of FDI and International production, 1982-2000" in "Overview" of *World Investment Report 2001*, 2. Also, for a comparison of the growth of world merchandise trade and output see "Selected long-term trends" from chapter one of World Trade Organization, Internet edition (http://www.wto.org), *International Trade Statistics 2001*, October 2001.

50. Based on the daily volume of turnover in foreign exchange cited in text, the annual volume is in the order of $548 trillion. In 2000, this is more than seventeen times the value of global production (GDP) ($32 trillion), and many more times the value of world exports of goods and services ($7 trillion). Figures are drawn from: "Table 1: Select Indicators of FDI and International production, 1982-2000" in "Overview" of *World Investment Report 2001*, 2.

51. Will Hutton, *The State We're In* (London: Jonathan Cape, 1995), 56.

52. Paul Krugman, *The Accidental Theorist and Other Dispatches from the Dismal Science* (New York: W.W. Norton & Company Inc., 1998).

53. George Soros, *The Crisis of Global Capitalism* (New York: Public Affairs, 1998), 129.

54. David Harvey, *The Condition of Postmodernity*, 164.

55. Robert Heilbroner and William Milberg, *The Crisis of Vision*, 107.

56. The Lloyd's Funds Art Gallery offers a range of services for the would-be art investor, specializing in the private placement of art works. The cited reasons for investing in art were found on-line at (http://britishmint.com/paintings.html).

57. Smith's 'invisible hand' is a metaphor for the underlying desire to maximize gains through productive investments and market exchange. It is assumed that this tendency permeates all market transactions and produces the greatest exchangeable value, and thereby contributes to the greater well-being of society. In marrying the utilitarian motivation of maximization with production and exchange, the 'invisible hand' becomes the capitalist market itself. As the passage in Book IV, chapter 2 reads: "By directing that industry in such a manner as its produce may be of the greatest value, he [the individual] intends only his own gain, and he is in this ... led by an invisible hand to promote an end which was no part of his intentions.... By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it." See: Adam Smith, *Wealth of Nations*, 423.

58. Elizabeth Anderson, *Value in Ethics and Economics*, 145-146.

59. eBay, perhaps the most successful on-line auctioning business, entered the art and antiques market with the $260 million purchase of Butterfield and Butterfield, an established 'bricks and mortar' auction business. Within the year, both Sotheby's and Christie's responded to this new challenge by announcing their intentions of launching on-line trading. Sotheby's, in an attempt to strengthen its presence in this business stream subsequently entered into an alliance with amazon.com. But sothebys.amazon.com didn't last very long and Sotheby's decided to exit on-line auctioning. Indeed, evidence shows that 'blue chip' art (i.e., works in excess of $50,000) does not sell over the Internet. Nonetheless, there does appear to be a growing on-line market for photographs, prints, modern and contemporary design, and collectibles. Market research done by Jupiter Communications estimated that the on-line market art and collectibles market was worth about $300 million in 2000 and was projected to increased to $1.8 billion by 2005. See: Martin Angioni, "Art on the internet: Rapid growth, but will it last?" in *The Art Newspaper*, no. 93 (July-August 1999), 59, 62; and, Cristina Ruiz, "Artnet gives up on paintings," in *The Art Newspaper*, no. 110 (January 2001), 1.

60. For a discussion on the function of money see: Joseph Schumpeter, *History of Economic Analysis*, 62-3, 1087-90, 1097. Schumpeter clarifies the term *numéraire* as "a commodity whose unit is used in order to express prices and values but whose own value remains unaffected by this role"; and *monnaie* as when "the commodity actually serves as means of exchange and whose value is consequently affected because its monetary role absorbs parts of its supply."

61. David Harvey, *The Condition of Postmodernity*, 298.

62. Ibid., 100-101.

63. George Soros, *The Crisis of Global Capitalism*, 114.

64. Robert Reich coined the phrase "paper entrepreneurialism" to characterize this phenomenon in his work, *The Next American Frontier* (New York: Times Book, 1983).

65. David Harvey, *The Condition of Postmodernism*, 297.

66. George Soros, *The Crisis of Global Capitalism*, 113.

67. David Harvey, *The Condition of Postmodernism*: 109.

68. Marshal McLuhan, *Understanding Media: The Extension of Man* (New York: McGraw, 1964). Quote also cited in: David Harvey, *The Conditions of Postmodernity*, 293. The reader may also want to see: Marshal McLuhan and Bruce R. Powers, *The Global Village: Transformations in World Life and Media in the 21st Century* (New York: Oxford University Press, 1989).

69. Of course, there is a rich discourse on postmodernism from art practioner, art criticism, cultural studies, as well as philosophical aesthetics, perspectives. And many post-modernists ardently believe that Habermas, and the promise of The Enlightenment which large parts of modernism seemed to encapsulate, has lost out. From the perspective of this essay, the jury is still out – at least from the point of view that philosophical postmodernism has seemingly failed to replace the creative thrust of modernity with anything constructive -- that is, it has de-constructed but does not seem to have laid any kind of foundation for constructive action, communication and the possibility of freedom. Major proponents of postmodernism (from more moderate to radical) include Lyotard, Faucault, Derrida and Baudrillard. See: Jürgen Habermas, "Modernity: An Incomplete Project," in H. Foster, ed., *The Anti-Aesthetic: Essays on Postmodern Culture* (Seattle: Bay Press, 1983). The reader may also want to see: Charles Taylor, *The Malaise of Modernity*, The Massey Lecture Series, Canadian Broadcasting Corporation (Concord: House of Anansi Press Limited, 1991). For some perspective on postmodernism, the reader may want to see: Andreas Huyssen, *After the Great Divide: Modernism, Mass Culture, Postmodernism* (Bloomington: Indiana University Press, 1986); Margaret A. Rose, *The Post-Modern and the Post-Industrial: A Critical Analysis* (Cambridge and New York: Cambridge University Press, 1991); Zygmunt Bauman, *Intimations of Postmodernity* (London and New York: Routledge, 1992); and, Charles Lemert, *Postmodernism Is Not What You Think*, Twentieth Century Social Theory (Malden, MA.: Blackwell Publishers, 1997).

70. Robert Heilbroner and William Milberg, *The Crisis of Vision*, 109.

71. Ibid.

Chapter 3: The Problem of Value

1. David Ricardo, *On the Principles of Political Economy and Taxation,* I: 13.

2. Joseph Schumpeter, *History of Economic Analysis*, 309, 835.

3. Adam Smith, *Wealth of Nations*, 55-58.

4. Ibid., 36.

5. See: William Milberg, "Natural Order and Postmodernism in Economic Thought," *Social Research*, vol. 60, no. 2 (Summer 1993), 262.

6. Alfred Marshall, *Principles of Economics*, 8th edition (Philadelphia: Porcupine Press, (1920)1990), 51-52.

7. David Ricardo, *On the Principles of Political Economy and Taxation*, I: 12. Also see: Joseph Schumpeter, *History of Economic Analysis*, 912 (fn 9).

8. Adam Smith, *Wealth of Nations*, 47.

9. David Ricardo, *On the Principles of Political Economy and Taxation*, I: 12.

10. It is important to note that after proposing labour-time as the only possible invariable standard of value, much of the first edition of Ricardo's *Principles* focussed on analysing the effects of variations in relative price, profits and cost-of-production, and not or 'absolute' value.

11. This certainly appears to be the view of Joseph Schumpeter who dismisses any claim that Adam Smith was promoting a marginalist approach; and although Schumpeter acknowledges that Smith may be credited with a labour-quantity theory and commandable-labour theory, he argues that these were secondary to Smith's cost-of-production approach. See: Joseph Schumpeter, *History of Economic Analysis*, 309-310, 590.

12. Adam Smith, *Wealth of Nations*, 52.

13. David Ricardo, *On the Principles of Political Economy and Taxation*, I: 374.

14. Robert Heilbroner, "The Problem of Value," 119.

15. Ibid., 129.

16. Keynes is not classified as an institutional economist. However, several of his ideas, such as the uncertainty principle and consumption propensities, shift the focus of economic inquiry from an individual-centered to a group-centered conception of

behaviour, thereby, introducing the relevance of social norms in economic analysis. For institutional economists the unit of analysis is the institution or group versus the neoclassical economist's maximizing individual consumer or firm. John R. Commons and Thornstein Veblen are among the founders of institutional economics. For an account of the difference between the neoclassical and institutional schools see: William Dugger, "Methodological Differences Between Institutional and Neoclassical Economics," in *Journal of Economic Issues*, vol. 13 (1979), 899-909. The reader may also be interested in: John R. Commons, *Legal Foundations of Capitalism* (New York: Macmillan, 1939); Joan Robinson, *The Economics of Imperfect Competition* (London: Macmillan and Co. Ltd., 1933); and, Thornstein Veblen, *The Theory of the Leisure Class: An Economic Study of Institutions* (Amherst, N.Y.: Prometheus, 1998) – this work was first published in 1899 by Macmillan Company of New York. For an introduction to a contemporary view of the field see: J. Rogers Hollingsworth and Robert Boyer, eds., *Contemporary Capitalism: The Embeddedness of Institutions* (Cambridge: Cambridge University Press, 1997).

17. David Ricardo, *On the Principles of Political Economy and Taxation*, I: 12.

18. Nassau W. Senior, *An Outline of the Science of Political Economy*, 97. Also quoted in Michael V. White, "Obscure Objects of Desire?" 63. White's article was an important source for this introductory section. Reading his article reinforced my own conviction that an exception to a rule can provide powerful insight into the meaningful application of the rule. Also, White's scholarly article enlivened my own reading of several nineteenth century economists.

19. W. Stanley Jevons, *The Theory of Political Economy*, 113. Also cited in: Michael V. White, "Obscure Objects of Desire?" 74.

20. W. Stanley Jevons, *The Principles of Economics*, ed. by H. Higgs (London: Macmillan, 1905), 149-150. Also quoted in: Michael V. White, "Obscure Objects of Desire?" 72.

21. Alfred Marshall, *The Principles of Economics*, ed. by C.W. Guillebaud ,1: 332. Also quoted in: Michael V. White, "Obscure Objects of Desire?" 79.

22. William J. Baumol, "Unnatural Value: or Art Investment as Floating Crap Game," in *American Economic Review*, 76(2) (1986), 10. This article first appeared in 1985 as a Research Report, C.V. Starr Center for Applied Economics, New York University.

23. Michael V. White, "Obscure Objects of Desire?" 59.

24. Alfred Marshall, *The Principles of Economics*, 1: 332.

25. David Ricardo, *On the Principles of Political Economy and Taxation*, I: 385.

26. See: William Milberg, "Natural Order and Postmodernism in Economic Thought," 255-277; and, Joseph Schumpeter, *History of Economic Analysis*, 132-134. Milberg argues that natural law is fundamental to both classical and neoclassical economics although nature functions differently in each paradigm. In contrast, Schumpeter, while acknowledging the influence of natural law and its hybrid utilitarianism on the vision of nineteenth-century economics (classical and neoclassical), emphasizes that as a comprehensive system of social science, utilitarianism embodied a uniform method of analysis that could be separated from its schema of ultimate values and moral imperatives. For Schumpeter, it is this method of analysis that is significant for the development of modern economics and not the moral system's propensity towards deriving laws about man in society from the "light of reason" alone.

27. Adam Smith, *Wealth of Nations*, 47.

28. Ronald L. Meek, *Studies in a Labour Theory of Value*, 97.

29. For example, as Maurice Dobb has documented, Marshall dismissed Marx as a "tendentious thinker who mischievously misunderstood Ricardo"; F.Y. Edgeworth regarded "the importance of Marx's theories" as "wholly emotional"; John Maynard Keynes considered him a "luminary of the dim underworld of heretics"; and Paul Samuelson considered him "a minor post-Ricardian." See: Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 141-142.

30. This distinction is made by Joseph Schumpeter, *History of Economic Analysis*, 142. It also seems to be supported by: Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 142-143.

31. Joseph Schumpeter, *History of Economic Analysis*, 390.

32. As discussed by Maurice Dobb, "it was in the course of generalising his 'primitive' agriculture theory of profit that Ricardo saw the need to base his theory on a developed theory of value." In this earlier theory everything was expressed in corn (product, capital and hence surplus). In effect he replaces corn with labour, "as the quantity in terms of which product, capital and surplus were alike expressed." See: Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 73-74.

33. The Corn Laws gave a great deal of protection to landlords and was a central political question in Britain in the first half of the nineteenth century. These Laws were not actually repealed until twenty-five years after Ricardo's death. Ricardo explained his opposition in his February 1815 pamphlet, *An Essay on the Influence of a Low Price of Corn on the Profit of Stock* in *The Works*, vol. IV. As Maurice Dobb explains this essay set out "the essential elements" of Ricardo's "theory of value and distribution" which was later elaborated on in *The Principles of Political Economy and Taxation*. See: Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 67.

34. Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 144.

35. Ronald L. Meek, *Studies in the Labour Theory of Value*, 301. Meek provides a concise description of Marx's economic method in the appendix, 300-318.

36. Ibid., 301.

37. Ibid.

38. David Ricardo, *Principles,* I: 11.

39. Joseph Schumpeter, *History of Economic Analysis*, 591.

40. Indeed, some argue that the second and third editions of Ricardo's *Principles* seemed to move away from the ideas of embodied-labour and absolute value. However, as Ronald L. Meek points out, it is evident with the discovery of Ricardo's final paper on "Absolute and Exchangeable Value" that Ricardo never gave up on trying to overcome the problem of relating relative or exchangeable value and absolute value as an expression of embodied-labour. Sraffa, himself is quite clear on this point in his "Introduction" to volume I of the Works of David Ricardo. See: Ronald L. Meek, *Studies in the Labour Theory of Value*, 110-116; Piero Sraffa, "General Preface" and "Introduction" to *The Works*, vol. I: vii-xi and xxxvii-liii; and, David Ricardo, *Absolute and Exchangeable Value*, in *The Works*, vol. IV.

41. David Ricardo, *Principles*, I: 13.

42. Ibid., 12-13.

43. Ibid., 249-250.

44. Ibid., 250.

45. Ibid., 383-385.

46. Ibid. It is important to note that Ricardo placed a strong emphasis on distinguishing the point that the market price of commodities may indeed for a time be affected by the proportion between supply and demand, but it is the cost of production (i.e., 'natural' price) which ultimately regulates price over the long-run (vs. embodied-labour which is the 'source' of value).

47. For a discussion of the role of labour embodied in capital goods see: David Ricardo, section II and III of Book I, "On Value," in *Principles*. Also see: Joseph Schumpeter, *History of Economic Analysis*, 593-594; and, Peter M. Lichtenstein, *An Introduction to Post-Keynesian and Marxian Theories of Value and Price* (Armonk, N.Y.: M.E. Sharpe, Inc., 1983), 35.

48. See: David Ricardo, section II of Book I, "On Value", *Principles*.

49. Ibid., 30.

50. For the quote see: David Ricardo, "Letter to Mill, 28 December, 1818," in *Works*, VII: 377. Also see: Piero Sraffa, "Introduction," to *Works*, I: xxxvii; and, Ronald L. Meek, *Studies in the Labour Theory of Value*, 105.

51. Ricardo discussed this issue of the durability of fixed capital in the first and second editions of *Principles* and made it more explicit in the third edition. See David Ricardo, sections IV and V of Book I, "On Value", *Principles*. For a range of commentary see: Piero Sraffa, "Introduction" to *Works*; Joseph Schumpeter, *History of Economic Analysis*, 594-595; Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 79-83; Ronald L. Meek, *Studies in the Labour Theory of Value*, 103-105; and Peter M. Lichtenstein, *An Introduction to Post-Keynesian and Marian Theories of Value and Price*, 37.

52. David Ricardo, *Principles*, I: 45. Maurice Dobb provides an excellence discussion of Ricardo's preoccupation with connecting the two problems of the measure and the 'cause' of value, and his seeming acceptance that an invariable standard may not only be impossible to find in practice but also in principle. See: Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 82-83. The reader may also want to see: George Stigler, "Ricardo and the 93 Per Cent Labor Theory of Value," in *American Economic Review*, vol. 48 (June 1958).

53. See: Piero Sraffa, *Production of Commodities by Means of Commodities* (Cambridge: University of Cambridge Press (1960), 1963). There was a wide range of reactions to Sraffa's work and still is to this day. For some it was just another input-output model which could be translated into Walrasian equilibrium analysis (never mind that Sraffa's model was directed at partial equilibrium analysis), for others (on the left as well as the right) it was just 'wrong headed', and for some it was a brilliant piece of work that supported underlying assumptions of classical economics by putting the emphasis back on production versus demand and utility. For a brief discussion of the immediate reaction to Sraffa's work see: Jean-Pierre Potier, *Piero Sraffa - Unorthodox Economist (1898-1983)* (London: Routledge, 1991), 72-73 (first published in French by Presse Universitaire de Lyon, 1987). For a look at the continuing debate surrounding his work see: Krishna Bharadwaj and Bertrand Schefold, eds., *Essays on Piero Sraffa: Critical Perspectives on the Revival of Classical Theory* (London: Routledge (1990), 1992).

54. Joan Robinson, "Prelude to a Critique of Economic Theory," in *Oxford Economic Papers*, New Series, vol. xiii (February 1961), 53-58.

55. Quote is from: Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 257. Sraffa's "production of commodities by means of commodities" was a technical

proof, with narrow and strict assumptions, designed to shed light on the nature of profits. His model was published in 1960 although it was initially designed in the 1920s. In its simplest form, the model assumed a steady-state of production (i.e., unchanged output and no change in proportions of the factors of production) within a set period of time. The model showed that given any one of the distributive variables – wage or profit rates – it was possible to determine values for the other, and for a set of relative prices consistent with the condition of a uniformed rate of profit. In his analysis, Sraffa chose to treat the profit rate as exogenous. Once this was given then the pattern of prices for each commodity could be worked out and from here the value of the net output and the initial capital stock could be derived in terms of Sraffa's composite commodity (i.e., a weighted average of 'actual' commodities). Sraffa then demonstrated that only one set of prices could be found that satisfied all of the model's conditions at the same time (albeit through the use of complex algebra). As Maurice Dobb explains it, the point of Sraffa's exposition was to demonstrate that the 'value of the stock of capital', in general, has no meaning independent of the distribution of new product between wages and profits; so that there is no meaning in the notion that the rate of profit is determined by the 'marginal product of capital'. This is but a rudimentary description of Sraffa's argument and clearly leaves much out. For clarification and useful summary see: Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 247-266; Ronald L. Meek, *Economics and Ideology and Other Essays* (Chapman Hill: London, 1967), 161-178; G.C. Harcourt, *Some Cambridge Controversies in the Theory of Capital* (Cambridge: University Press, 1972),177-204; Joan Robinson and John Eatwell, *An Introduction to Modern Economics*,183-187; Samuel Hollander, *Classical Economics*, 441-453.

56. Joseph Schumpeter, *History of Economic Analysis*, 596.

57. According to Joseph Schumpeter, Marx was the only author to ever make absolute value the pivot of his analytical structure and this was the most fundamental difference between Marx and Ricardo. Ricardo's arguments first and foremost sought to explain his embodied-labour values both as a source and as a regulator of prices, and admittedly never solved the self-imposed problem of absolute value. See: Joseph Schumpeter, *History of Economic Analysis*, 597.

58. Ibid., 598.

59. Joan Robertson and John Eatwell, *An Introduction to Modern Economics*, 35.

60. Ronald L. Meek, *Economics and Ideology*, 70.

61. The quotes are from Samuel Read and Poulett Scrope, two nineteenth century opponents of Ricardian doctrine as cited in: Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 110.

62. John Stuart Mill, *Principles of Political Economy*, 5th ed. (New York: D. Appleton and Company, 1864) 1: 536-537.

63. Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 122.

64. Joseph Schumpeter, *History of Economic Analysis*, 529-530.

65. Please see Chapter One, endnote 6 for details on these citations.

66. Joseph Schumpeter, *History of Economic Analysis*, 952.

67. Gossen was the first to developed a semi-mathematical theory of pleasure and pain. It seems that neither Jevons nor Menger were aware of Gossen's achievement when they first published their respective works in 1871. However, Jevons, a follower of Bentham, does give Gossen credit for the discovery in the second edition (1879) of his *Theory of Political Economy*. See: Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 192.

68. Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 168.

69. Today, business behaviour is the subject of study of business schools where one of the principle methods of analysis is the highly descriptive case study approach.

70. Joseph Schumpeter, *History of Economic Analysis*, 918-919.

71. Ibid., 1057.

72. Peter M. Lichtenstein, *An Introduction to Post-Keynesian and Marxian Theories of Value and Price*, 53.

73. Ibid., 53-54.

74. Joan Robinson and John Eatwell, *An Introduction to Modern Economics*, 46.

75. Alfred Marshall, *Principles of Economics*, 8th ed., 79.

76. Joseph Schumpeter, *History of Economic Analysis*, 910.

77. Ibid., 910.

78. Robert Heilbroner, "The Problem of Value,"126; and, Lichtenstein, *An Introduction to Post-Keynesian and Marxian theories of Value and Price*, 48-49.

79. Stanley Jevons asserted that Ricardo himself provided a significant criticism to labour-time value by acknowledging that "many things such as rare books, coins, antiquities, etc., which have high values, and which are absolutely incapable of

production now, disperses the notion that value depends on labour." W. Stanley Jevons, *The Principles of Economics*, 113.

80. Joseph Schumpeter, *History of Economic Analysis*, 918.

81. Ibid.

82. Lionel Robbins, "Lecture 31: Walras – Pareto," in *A History of Economic Thought: The LSE Lectures*, ed. by S.G. Medema and W.J. Samuels (Princeton: Princeton University Press, 1998), 297- 301.

83. Statical analysis refers to a method of dealing with economic phenomena that tries to establish relations between prices and quantities of commodities occurring at the same point of time. This approach involves a high level of abstraction. That is, it tends to drop features of the economic system or make assumptions to control for a range of dynamic factors. General equilibrium analysis is static by definition. For an interesting discussion of the difference between statics and dynamics in economic theory see: Joseph Schumpeter, *History of Economic Analysis*, 963-967.

84. Joan Robinson and John Eatwell, *An Introduction to Modern Economics*, 39.

85. Peter M. Lichtenstein, *An Introduction to Post-Keynesian and Marxian Theories of Value and Price*, 14-15; and Joan Robinson and John Eatwell, *An Introduction to Modern Economics*, 37.

86. Alfred Marshall, *Principles of Economics*, 8th edition (1920), xiii.

87. Ibid., 290.

88. Ibid., 291.

89. Joseph Schumpeter, *History of Economic Analysis*, 1060.

90. Schumpeter offers a brief discussion on cardinal utility which includes this reference to Alfred Marshall's argument found in sections 2-9, Chapter 5, Book I of *Principles of Economics*. See: Joseph Schumpeter, *History of Economic Analysis*, 1060-1062.

91. R.D.G. Allen and John R. Hicks provided the first completed theory of choice in their article, "A Reconsideration of the Theory of Value," which first appeared, in two parts, in *Economica* (February and May 1934): 52-76 and 196-219. See: R.D.G. Allen and John R. Hicks, "A Reconsideration of the Theory of Value," in *Wealth and Welfare: Collected Essays on Economic Theory*, John Hicks, ed., 3 vols. (Oxford: Basil Blackwell, 1981), I: 3-55.

92. Joan Robinson and John Eatwell, *An Introduction to Modern Economics*, 202.

93. Peter M. Lichtenstein, *An Introduction to Post-Keynesian and Marxian Theories of Value and Price*, 16.

94. Ibid.

95. Ibid., 16-17.

96. Phillip Mirowski, "Learning the Meaning of a Dollar," *Social Research*, vol. 57, no. 3 (fall 1990), 703-704.

97. Thorstein Veblen, *The Theory of the Leisure Class*, 31.

98. John Kenneth Galbraith, *The Affluent Society*, 2d ed. (Boston: Houghton Mifflin Company (1958), 1969), 51-52.

99. John Kenneth Galbraith, *The Age of Uncertainty* (Boston: Houghton Mifflin Company, 1977), 70.

100. Ibid., 30-31.

101. Phillip Mirowski, "Learning the Meaning of a Dollar," 704.

102. Alfred D. Chandler Jr., *Scale and Scope: The Dynamics of Industrial Capitalism*, with assistance of Takashi Hikino (Cambridge, Mass.: Belknap Press, 1990). The reader may also want to see: Alfred D. Chandler Jr., *The Managerial Revolution in American Business* (Cambridge, Mass.: Belknap Press, 1977).

103. Paul Ormerod, *The Death of Economics*, 53.

104. As Robert Heilbroner and William Milberg point out the emergence of the study of business cycles predated the new focus on the role of aggregate demand that distinguishes Keynesian analysis, but was not sufficient to challenge the economic orthodoxy of the time. Although the effects of business cycles were viewed as important they were considered as fundamentally transient and attributed to exogenous factors. Therefore, study of business cycles was itself placed out of the reach of economic theory. See: Robert Heilbroner and William Milberg, *The Crisis of Vision*, 30.

105. John Maynard Keynes' *General Theory* was first published in 1936 (though many of its ideas were developed from 1929 onward); Gunnar Myrdal's work *Monetary Equilibrium* was first published in Swedish in 1931 and translated into English in 1935; and translations of Michal Kalecki's various Polish essays were reprinted in *Selected Essay in the Dynamics of the Capitalist Economy 1933-1970.* See: John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York, London: Harcourt Brace & Co. (1964), 1991); Gunnar Myrdal, *Monetary Equilibrium* (London: W. Hodge and Co., 1939); Michal Kalecki, *Selected Essays on the Dynamics of the Capitalist*

Economy, 1933-1970 (Cambridge: Cambridge University Press, 1971).

106. John Kenneth Galbraith in *Age of Uncertainty* describes the period since World War II as a return to the "free enterprise or market revival" approach, and asserts that this was based on a "rediscovery of the Benthamite world of the nineteenth century." Its academic base was derived from the work of Friedrich A. von Hayek (in particular the publication, in 1944, of *The Road to Serfdom*) and other scholars who gathered at the university of Chicago. See: John Kenneth Galbraith, "Introduction," to *Age of Uncertainty*.

107. Maurice Dobb, *Theories of Value and Distribution Since Adam Smith*, 215.

108. Robert Skidelsky, *John Maynard Keynes: The Economist as Saviour, 1920-1937* (London: Macmillan (1992), 1994), 2: 539. The other 2 volumes of Skidelsky's biography of Keynes are: *Hopes Betrayed, 1883-1920* (London: Macmillan, 1983); and, *Fighting for Freedom, 1937-1946* (New York: Viking (Penguin Group), 2001). Skidelsky's condensed biography of Keynes was released in 2003. The complete citation is: Robert Skidelsky, *John Maynard Keynes, 1883-1946: Economist, Philosopher, Statesman*, abridged ed. (London: Macmillan, 2003). For another excellent biography see: D.E. Moggridge, *Maynard Keynes: An Economist's Biography* (London: Routledge, 1992).

109. Joan Robinson, *Economic Heresies* (New York: Basic Books, 1971), 90.

110. Robert Heilbroner and William Milberg, *The Crisis of Vision*, 44-45.

111. In his 1937 article John R. Hicks presented Keynes' theory as a two-market equilibrium model that incorporated the aggregate flows of investment (I) and savings (S) and the variables of the rate of interest (L) and the stock of money (M), but omitting the principle of uncertainty, Keynes' emphasis on the endogenous nature of money, as well as, the role of wages and price level determination. See: John R. Hicks, "Mr. Keynes and the 'Classics': A Suggested Interpretation," in *Econometrica*, 5 (April 1937): 147-59. It is important to clarify that Keynes used the term 'Classics' to refer to his opponents in the Marshallian marginalist tradition, perhaps the most prominent of whom was the Cambridge professor A.C. Pigou.

112. Michal Kalecki, "The Mechanism of the Business Upswing," in *Selected Essays,* 26-28.

113. John Maynard Keynes, *General Theory*, 30-31.

114. Robert Skidelsky, *The Economist as Saviour*, 544.

115. Robert Heilbroner and William Milberg, *The Crisis of Vision*, 31.

116. Michal Kalecki, "Costs and Prices," in *Selected Essays*, 43.

117. Ibid., 43-44.

118. Ibid., 44-45.

119. Joan Robinson and John Eatwell, *An Introduction to Modern Economics*,155.

120. Michal Kalecki, "Costs and Prices," *Selected Essays*, 50.

121. Ibid.

122. Ibid., 49-51.

123. Ibid., 52.

124. Ibid., 52-53. As Kalecki points out, for price to remain constant in relation to a rise in fixed capital with stable prime costs, overhead costs and net profits would have to fall. An alternative scenario is that the investment in new technology leads to a decrease in prime costs through increased efficiencies over the long-run.

125. For a discussion of Keynes' vision see: Robert Skidelsky, *The Economists as Saviour*, 544-545; and, Robert Heilbroner and William Milberg, *The Crisis in Vision*, 32-34.

126. John Maynard Keynes, *Collected Writings of John Maynard Keynes*, for the Royal Economic Society (London: Macmillan; New York: St. Martin's Press, 1971-1989), VII: 293. Also as cited in Robert Skidelsky, *The Economist as Saviour*, 544.

127. Robert Skidelsky, *The Economist as Saviour*, 544.

128. Robert Heilbroner and William Milberg, *The Crisis in Vision*, 33.

129. Ibid.

130. John Maynard Keynes, *General Theory*, 149.

131. Ibid., 154.

132. Ibid.

133. Ibid., 160.

134. Ibid., 162-163.

135. Ibid., 104.

136. Ibid., 96.

137. Ibid., 210.

138. Ibid., 212.

139. Ibid., 105.

140. Ibid., 106.

141. Ibid., 136-137.

142. Ibid., 165.

143. Ibid., 167.

144. Ibid.

145. Ibid., 168.

146. Ibid., 170.

147. Ibid.

148. Ibid.

149. Robert Skidelsky, *The Economist as Saviour*, 544.

150. Robert Heilbroner and William Milberg, *The Crisis in Vision.*

151. See endnote one to this chapter.

152. John Dewey, "Value, Valuations, and Social Facts," in *John Dewey: The Later Works, 1925-1953*, 16: 310.

153. Ibid., 316.

154. John Dewey, "The Field of 'Value'," in *John Dewey: The Later Works, 1925-1953*, 16: 348. This article was first published in: Ray Lepley, ed., *Value: A Cooperative Inquiry* (New York: Columbia University Press, 1949), 64-77.

155. W. Stanley Jevons, *Theory of Political Economy*, 77.

156. Gerard Debreu, *Theory of Value* (New Haven and London: Yale University Press (1959), 1987).

157. Phillip Mirowski, "Postmodernism and the Social Theory of Value," in *Journal of Post Keynesian Economics*, vol. 13, no. 4 (summer 1991), 569.

Chapter 4: Beauty, Truth and Theory

1. This quote is from the diaries of the Swiss-French novelist and political writer Benjamin Constant in 1804 as it appears in: J. Wilcox, "The Beginnings of *l'art pour l'art*," in *Journal of Aesthetics and Art Criticism*, vol. 11 (June 1953), 360-377. The full quote reads: "I had a visit with Robinson, pupil of Schelling's. His work on the Esthetics of Kant has some very forceful ideas. *L'art pour l'art* without purpose, for all purpose perverts art." The origin of *l'art pour l'art* is traced by Wilcox to a reading of Kant's aesthetics by French intellectuals of the early nineteenth century. For a discussion of the German sources of the notion in Kant, Goethe, Schelling, Fichte and others see: Rose Frances Egan, "The Genesis of the Theory of Art for Art Sake in Germany and in England," in *Smith College Studies in Modern Languages*, 2.4 (July 1921), 5-61 and 5.3 (April 1924), 1-33.

2. This quote is from the introduction of Théophile Gautier's *Mademoiselle de Maupin* first published in France in 1834. Gautier's *Maupin* helped to popularize the notion of *l'art pour l'art* which was subsequently taken up by such prominent French figures as Gustave Flaubert, Charles Baudelaire, Stéphane Mallarmé, and such British cultural luminaries as Oscar Wilde ad Walter Pater. Another early French promoter of the ideology of aesthetics was Victor Cousin (1792-1867). From 1818 onwards Cousin expounded the notion of *l'art pour l'art* in his lectures, and in 1836 in the edition of *Du vrai, du beau, du bien* (Paris: Perrin, 1917), stated: "There must be religion for religion's sake, morality for morality's sake, and there is art for art's sake." See: Théophile Gautier, *Mademoiselle de Maupin* (Paris: G. Crès, 1922); and, Iredell Jenkins, "Art for Art's Sake," 1: 108-111. For a brief discussion of the origins of the doctrine of *l'art pour l'art* see: Michael Kelly, ed., *Encyclopedia of Aesthetics*, 118-120.

3. Arthur Schopenhauer, *The World as Will and Representation*, trans. by E.F.G. Payne (New York: Hafner Publishing Company, 1958), 2: 388. First published in part in 1819. The complete version was published in German in 1844. Also cited in: Arthur Danto, "From Aesthetics to Art Criticism," in *After the End of Art: Contemporary Art and the Pale of History* (Princeton: Princeton University Press, 1997), 81-99.

4. Arthur Schopenhauer, *The World as Will and Representation*, 2: 388.

5. As Arthur Danto reminds us this is the way Clement Greenberg defines Modernism in his famous 1960 essay, "The Modernist Painting". Clement Greenberg, "The Modernist Painting," in *Clement Greenberg: The Collected Essays and Criticism,* ed. John O'Brian, 4 vols. (Chicago: University of Chicago Press, 1986-1993). Also see: Arthur Danto, *After the End of Art: Contemporary Art and the Pale of History*, A.W. Mellon Lectures in the Fine Arts, Princeton: Princeton University Press, 1997.

6. As Arthur Danto suggests the American art critic Clement Greenberg epitomized this manner of art criticism as did former *New York Times* art critic Hilton Kramer. See

Arthur Danto, "From Aesthetics to Art Criticism," 81-99.

7. Their respective key works on aesthetics are: Immanuel Kant, *The Critique of Judgement*; and Georg W.F. Hegel, *Aesthetics: Lectures on the Fine Arts*, trans. by T.M. Knox (Oxford: Clarendon Press, 1975). Hegel's lectures on aesthetics, edited by H.G. Hotho, were first published four years after his death in 1835. Knox's translation is based on Hotho's second and revised edition of 1842. Knox's Volume 1 contains Parts I and II of the lectures and Volume 2 contains Part 3. In Part I, Hegel considers the general nature of art – distinguishes art, as an experience of spirit, from religion and philosophy; discusses beauty of art and distinguishes it from nature; and discusses the genius and originality of the artist. Part II provide a history of art divided into 3 periods – symbolic (India, Persia, Egypt), classical (Greece), and romantic (medieval up to end of eighteenth century). Part III contains Hegel's system of the individual arts. Several different translations of these works were used in the preparation of this text. Unless otherwise stated the Bernard and Knox versions are the main sources.

8. Hans Belting, *Likeness and Presence: A History of the Image before the Era of Art*, trans. by Edmund Jephcott (Chicago: The University of Chicago Press, 1994), xxi. Original published in German by C.H. Beck'sche Verlagsbuchhandlung (Oscar Beck), Munich, 1990. Also see Belting's book *The End of the History of Art?* trans. by Christopher S. Wood (Chicago: University of Chicago Press, 1987) – in particular, see the second chapter, "Varsari and His Legacy". This book was first published in German by Deutscher Kunstverlag, Munich, 1983.

9. For example, the *Académie royale de peinture et de sculpture*, founded under Louis XIV in 1648, elaborated a schema of visual expression that governed artistic output and contemporary taste. It established a hierarchy in subject matter, elevating history painting above portraiture, landscape, still life and other *genres* (e.g., aspects of aristocratic life such as courtship and the hunt, to the rituals of domestic life). Artists may have worked in more than one *genre,* but history painting was considered the pinnacle of artistic expression. Artists' reputations and livelihoods were very much dependent on the recognition of the *Académie* which exercised authority over training and accreditation of the best French painters through its membership. This system, despite periods of major political upheaval, remained largely intact until the late eighteen hundreds (*N.B.* this is further discussed in chapter 5).

10. See: Arthur Danto, "The Philosophic Disenfranchisement of Art," in *The Philosophic Disenfranchisement of Art* (New York: Columbia University Press, 1986), 1-21. Also see: Danto's "Forward" in Martha Woodmansee, *The Author, Art and the Market*, xiv-xv; and, Danto's, "Introduction: Modern, Postmodern and Contemporary," in *After the End of Art*, 3-19.

11. This phrase, "self-sufficient totalities", appears in Martha Woodmansee's 1994 book, *The Author, Art and the Market*; and, she in turn has excavated it from the writings of a

little-known German writer, Karl Philipp Moritz (1756-1793). For Woodmansee, Moritz's 1785 essay, on the unification of the fine arts, is the first "unequivocal and systematic expression" of our modern idea of art. That is, five years before the *Critique of Judgement*, Moritz speaks of the fine arts as a discrete realm wherein art exist for its own sake and as such possesses intrinsic value. See: Martha Woodmansee, *The Author, Art and the Market*, 11-12.

12. See the "Introduction" to Jean-Marie Schaeffer's *Art of the Modern Age.* Schaeffer's book, first published in French by Editions Gallimard 1992, provides a provocative analysis of Kantian aesthetics and the speculative art theories of major German philosophers in the context of what he sees as the current "crisis in the legitimation discourse of the arts." His thesis on the philosophic legitimization of the sacralization of art will be used throughout this chapter. The other work which is used extensively for its insights into the Enlightenment, Romanticism, and the writings of Kant and Hegel is: Charles Taylor, *Hegel* (Cambridge: Cambridge University Press, 1975 (1997 paperback)).

13. G.W.F. Hegel, *Aesthetics: Lectures on Fine Art,* I: 7. This quote is also cited in Jean-Marie Schaeffer, *Art of the Modern Age*, 7.

14. Ernst Fischer, *The Necessity of Art*, 49.

15. See: Jürgen Habermas, "Modernity – An Incomplete History," 3-4. As suggested in Habermas's essay, for an exploration of the history of the term 'modern', also see: Hans Robert Jauss, "History of Art and Pragmatic History," in *Towards an Aesthetic of Reception*, trans. by Timothy Bahti (Minneapolis: University of Minnesota Press, 1982).

16. Jacques Barzun, *From Dawn to Decadence: 500 Years of Western Cultural Life* (New York: Harper Collins Publishers, 2000), 125.

17. Ibid., 126, 243-244.

18. Ibid., 521.

19. The full quote is: "Enlightenment is humanity's departure from its self-imposed immaturity. This immaturity is self-imposed when its cause is not lack of intelligence but failure of courage to think without someone else's guidance. Dare to know! That is the slogan of Enlightenment." This is from Kant's *Plan for Universal Peace* (1783) as cited in Jacques Barzun, *From Dawn to Decadence*, 441.

20. George Steiner, *In Bluebeard's Castle: Some Notes Towards the Re-definition of Culture* (London: Faber & Faber, 1971), 56.

21. Here Habermas draws on the analysis of Max Weber who supposed that as the unified world view of religion and metaphysics fell apart what emerged in its place were three distinct domains of modernist culture: scientific discourse (i.e., questions of knowledge);

theories of morality and jurisprudence (i.e., questions of justice and morality); and the production and criticism of art (i.e., questions of taste). See Jürgen Habermas, "Modernity – An Incomplete Project," 9.

22. Charles Taylor, *Hegel*, 9.

23. Ibid.

24. Ibid., 9-11.

25. David Harvey, *The Condition of Postmodernity*, 27.

26. Ibid., 12-16.

27. See: Marshall Berman, "Introduction," and "Goethe's *Faust*: The Tragedy of Development," in *All That is Solid Melts into Air*; David Harvey, *The Conditions of Postmodernity*, 15-17; and, Malcolm Bradbury and James McFarlane, *Modernism, 1890-1930* (Harmondsworth and New York: Penguin Books, 1976). Also see: J.W. Goethe, *Dr. Henry Faust: The Tragedy's First and Second Parts*, trans. by Philip A. Roth (Lanham MD.: University Press of America, 1988); and, F. Nietzsche, *The Will to Power*, trans. by Walter Kaufman and R.J. Hollingdale (London: Neidenfeld & Nicolson, 1968); and, Joseph Schumpeter, *Capitalism, Socialism and Democracy.*

28. Karl Marx and Friedrich Engels, *Communist Manifesto,* in *The Marx-Engels Reader*, 475-76. This quote is also cited in: Marshal Berman, *The Experience of Modernity*, 21 and 95.

29. Much has been written on Romanticism as the impetus for fundamental changes in our way of conceiving of the world and interacting as individuals, with each other and with nature. Romanticism is commonly seen as a major junction in the history of modern Western culture because of the breath of its influence and as a condensed field within aesthetics. Sources used in this text include: Jacques Barzun, *From Dawn to Decadence*, 467-489, 512-418; Jacques Barzun, *Classic, Romantic and Modern* (London: Secker & Warburg, 1961); Anita Brookner, *Romanticism and its Discontents* (London: Penguin Books, 2001); Ernst Fischer, *The Necessity of Art*, 52-62; Jean-Marie Schaeffer; "The Birth of the Speculative Theory of Art," *Art of the Modern Age*, 67-129; and, Charles Taylor, "Aims of a New Epoch," *Hegel,* 3-50. Other sources of interest include: Geoffrey Clive, *The Romantic Enlightenment* (New York: Meridian Books, Inc., 1960); Marshall Brown, *The Shape of German Romanticism* (Ithaca N.Y.: Cornell University Press, 1979); Robert J. Richards, *The Romantic Conception of Life: Science and Philosophy in the Age of Goethe* (Chicago: University of Chicago Press, 2002); and, Frederick C. Beiser, *The Romantic Imperative: The Concept of Early German Romanticism* (Cambridge, Mass.: Harvard University Press, 2003).

30. Novalis is the pseudonym for the German Romantic poet and philosopher Georg Philipp Friedrich von Hardenberg. As Ernst Fischer points out Novalis, to his credit, recognized the positive aspects of capitalism, in particular the underlying creative impetus that drove all kinds of change -- cultural as well as economic. However, as with most of the Romantics these positive aspects were overshadowed by a dark dread of the mechanization of the world. See: Ernst Fischer, *The Necessity of Art*, 58. For insight into Novalis's philosophical work see: Novalis, *Philosophical Writings*, trans. and ed. by Margaret Mahoney Stoljar (Albany, N.Y.: State University of New York Press, 1997).

31. See: Jacques Barzun, *From Dawn to Decadence*, 469, 481; and, Ernst Fischer, *The Necessity of Art*, 53-59.

32. Ernst Fischer, *The Necessity of Art*, 55.

33. Charles Taylor, *Hegel*, 20-21.

34. Ibid., 24. Taylor discusses, in some detail, the emergence of an expressive view of man as a break with the world view of the Enlightenment, in particular as developed through the work of Johann Gottfried Herder (1744-1804) . Taylor depicts this transition as a shift in the human centre of gravity from *logos* to *posie* (see pages 18-23).

35. This quote is from Jacques Barzun, *From Dawn to Decadence*, 474.

36. Ernst Fischer, *The Necessity of Art*, 54.

37. As used in this text, the term Modernism in its narrow usage refers to the styles of various artistic movements that originated in the late nineteenth and twentieth centuries (at least up to the 1960s). As such, it marked a dramatic shift in the way people practices and thought about the arts. As Arthur Danto suggests, Modernism was a new departure representing a family of modes of representation. Within the visual arts, Modernism is most commonly associated with a shift from mimetic art to non-representational patterns of interpreting the external world and inner space. As Paul Cézanne put it: "In any case [giving his forehead a tap] ... painting is inside here!" But the rupture is arguably much more than an outward change of style or way of representing the world. As Daniel Bell describes it, the key features of Modernism is its denial of the "primacy of an outside reality" as given, its impulse to rearrange reality and its retreat "to private experience as the source of its concerns and aesthetic preoccupations." For Clement Greenberg, with Modernism, art becomes its own subject matter and its materials and techniques become the basis of self-criticism. For T.J. Clarke, "Modernism could not put contingence down." Thus it marked a turning from the past to the future; it embraced the contingent and accepted risk; it played with the malleability of space and time; it became the cult of the new and, in a way, the market became its element. There are several diverge views on Modernism's inaugural date and as to which writer or painter was the first modernists. For many, it starts with the late Romantics, in particular Charles Baudelaire and his book

of poems, *Les Fleurs du Mal* (1861). For other, it was Théophile Gautier's *Mademoiselle de Maupin* (1835) or Gustave Flaubert's *Madame Bovary* (1856). Within the visual arts, in particular painting, some point to the year 1855 and Gustave Courbet's Pavillon du réalisme where the artist displayed his works after being rejected by the official jury for the *Palais des beaux arts* at the World Fair. But, for most people, the first Modernist painter was Edouard Manet and in particular two paintings – *Desjeuner sur l'herbe* (1863) and *Olympia* (1864). However, there are others, including Arthur Danto, who suggest that van Gogh and Cézanne are the foremost archetypes of Modernism (e.g., van Gogh's *The Starry Night* (1889) and *The Portrait of Dr. Gachet* (1890); Cézanne's large *Bathers* (1899-1906) in which figures are deliberately left ambiguous and parts of the canvas left unpainted). The Cézanne quote can be found in: T.J. Clarke, *Farewell to an Idea: Episodes from a History of Modernism* (New Haven and London: Yale University Press, 1999), 142. Also see: Daniel Bell, *The Cultural Contradictions of Capitalism* (New York: Basic Books, 1976), 110; T.J. Clarke, "Painting in Year 2," in *Farewell to an Idea*, 15-53; Arthur Danto, "Modern, Postmodern, Comtemporary," in *After the End of Art*; Clement Greenberg, "Modernist Painting," in *Clement Greenberg: The Collected Essays*; and, Arnold Hauser, *The Sociology of Art*, trans. by Kenneth J. Northcott (Chicago: University of Chicago Press, 1979).

38. Jacques Barzun, *From Dawn to Decadence*, 480.

39. For the quote see: Susan Buck-Morss, "Aesthetics and Anaesthetics: Walter Benjamin's Artwork Essay Reconsidered", in *October*, vol. 62 (fall 1992), 6. For a brief discussion on the term aesthetics, in addition to Buck-Morss, see: Michael Kelly (ed.), "Preface," in *Encyclopedia of Aesthetics*, vol. 1, ix-x. Also see: Alexander G. Baumgarten, *Esthétique; précédée des méditations philosophiques sur quelques sujets se rapportant à l'essence du poème et de la métaphysique*, trans. par Jean-Yves Pranchère (Paris: l'Herne, 1988).

40. Paul Oskar Kristeller, "The Modern System of Art II," 13: 17. Kristeller's essay first appeared in two parts in *The Journal of the History of Ideas* and was subsequently reprinted in Morris Weitz's edited book *Problems in Aesthetics*. Other authors have since taken up Kristeller's line of research on the history of art theory. Notable works on the subject include: John W. Draper, *Eighteenth Century English Aesthetics* (New York: Octagon Books, 1968) – which lists over 1,200 items on aesthetic topics: beauty, taste, genius, painting, landscape gardening and scenic tourism; Paul Mattick Jr., ed., *Eighteenth Century Aesthetics and the Reconstruction of Art* (Cambridge: Cambridge University Press, 1993) – which contains a series of essays on art as a historically contingent concept and the contributions of various eighteenth century thinkers to a modern conception of art; and Martha Woodmansee, *The Author, Art and the Market.*

41. Prominent French contributions included: Charles Pernault whose *Le Cabinet des Beaux* (1690) in addition to discussing the merits of eight allegorical paintings also described eight fine arts (éloquence, poésie, musique, architecture, peinture, sculpture,

optique, méchaniques); J.P. de Crousaz who penned what is considered one of the first French treatise on beauty (1714); Abbé Dubos's *Réflections critiques sur la poësie et sur la peinture* (1719) which described the arts as depending on genius, or innate talent, in contrast to the sciences which are based on the acquisition of knowledge, and suggested that the function of art was to excite the passions; and Abbé Charles Batteux's *Les beaux arts réduits à un même principe* (1746) which separated the fine arts as a fount of pleasure from the mechanical arts, listed the major fine arts as music, poetry, painting, sculpture and dance, and argued that their common principle was the imitation of the beautiful in nature. Batteux's ideas were particularly influential in France and Germany where Baumgarten was already expounding upon a nascent 'science of perception' (included in the *Encyclopédie* in 1751 and translated into German in the same year). Among the English writers were Anthony, Earl of Shaftesbury, Joseph Addison and Francis Hutcheson who, among other topics, contributed discussions on 'the pleasures of the imagination', a standard of taste, the relation of beauty to a moral sense and an early notion of disinterested perception. In addition, David Hume's essay "Of the Standard of Taste" advanced the notion of a universal, 'natural' basis of taste found in "the common sentiments of human nature", but also suggested that the judgement of taste is empirical, depending on education and experience. Of particular note among eighteenth century German thinkers are of course Baumgarten, his pupil Georg Friedrich Meier, Kant's friend and fellow philosopher Moses Mendelssohn, and J.G. Herder who expounded a new 'expressive' anthropology which influenced the Romantics and Idealists. In addition, Martha Woodmansee draws our attention to a lessor-known figure, Karl Philipp Moritz, who in his writings argued that art works are "self-sufficient totalities" produced simply "for their own sake". Woodmansee argues that Moritz essay, "Toward a Unification of All the Fine Arts and Letters under the Concept of Self-Sufficiency" (1785), gave expression to the first modern philosophical conception of art. In addition to Kristeller's essay cited above also see: Richard Shusterman, "Of the Scandal of Taste: Social Privilege on Nature in the Aesthetic Theories of Hume and Kant," in *Eighteenth Century Aesthetics and the Reconstruction of Art*, 96-119; and, Martha Woodmansee, *The Author, Art and the Market*, 11-12, 18-22.

42. In particular, Woodmansee suggests that Addison's influential *Spectator* essays on "The Pleasures of the Imagination" have been read by many philosopher-historians as a philosophical treatise, when they more rightly belong to the literature on the conduct of leisure time. See Woodmansee, *The Author, Art and the Market*, 5-7. For discussion of the early writings on a notion of disinterestedness see: Elizabeth Bohls, "Disinterestedness and Denial of the Particular: Locke, Adam Smith, and the Subject of Aesthetics," in *Eighteenth Century Aesthetics and the Reconstruction of Art*, 16-51; and Jerome Stolnitz, "On the Origins of 'Aesthetic Disinterestedness'," in *Journal of Aesthetics and Art Criticism,* 20 (1961-62), 131-43.

43. See: Paul Oskar Kristeller, "The Modern System of Art II," 13: 45. As Kristeller reports, students notes from Kant's lectures indicate that he was very familiar with many of the French, English and German writers and thinkers.

44. As Umberto Eco suggested : "As a matter of fact, the scholastic philosophers never occupied themselves *ex professo* with art or its aesthetic value." See: Umberto Eco, *Il problema estetico in Tommaso d'Aquino*, 2d ed. (Milan: Bompiani, 1970). This is as cited in Annie Becq, "Creation, Aesthetics, Market: Origins of the Modern Concept of Art," in *Eighteenth Century Aesthetics and the Reconstruction of Art*, 240.

45. Giorgi Vasari, *The Lives of the Artists*, trans. by Julia Conaway Bondanella and Peter Bondanella, 2d ed. (Oxford: Oxford University Press (1991), 1998), 48. The first Torentino edition of Varsari's *Lives* appeared in 1549-50. The second and definitive Giuntina edition appeared in 1568. Also see: Leon Battista Alberti, *On Painting*, trans. with intro by John R. Spencer (New Haven: Yale University Press, 1966). Another early account of the lives of "eminent painters" includes: Charles Alphonse Dufresnoy, *The Art of Painting (De arte graphica)*, trans. by Dryden (London: Printed by J. Heptinstall for W. Rogers, 1695).

46. These five qualities of a work of art are used at various points in Vasari's *Lives* to describe the works of different artists. The first two qualities (rule and order) seem to relate mainly to architecture and the imitation of the structural plans and styles (e.g., Doric, Ionic, Corinthian, Tuscan) of ancient monuments and buildings. It seems that for Vasari *designo* (design, draughtsmanship, or drawing depending on its context) was the most important of these qualities as he considered it a fundamental skill for all artisans. That is, all successful architects, sculptors and painters had to master the craft of *designo* in order to fulfil the goal of art which for Vasari and his contemporaries was the beautiful imitation of the natural and man-made worlds. To gain an appreciation of how these five qualities related to each other and the perfection of the work of art see Varsari's "Preface to Part Three," in *The Lives*, 277-283.

47. Ibid., 48.

48. *The Lives* is divided into three parts reflecting Vasari's three historical stages of the development of Renaissance art: (1) the rebirth of great art beginning with the artists Cimabue and Giotto; (2) the rediscover of the science of perspective and other techniques leading to more rigorous shared rules of painting, sculpture and architecture; and, (3) the perfection of the visual arts as the beautiful imitation of nature and classical civilization, and as dominated by the genius of Leonardo Da Vinci, Raphael and Michelangelo. Vasari is clearly a pivotal figure in the development of a concept of the work of art and in the creation of a history of art. Hans Belting explores Vasari's *Lives* as contributing to the idea of the work of art as a historical phenomenon attempting to achieve an aesthetic norm in his essay, "Vasari and His Legacy: The History of Art as a Process?" in *The End of the History of Art?* 67-94.

49. For example Da Vinci's *Paragone*, which is a collection of the artist's notes put together posthumously by one of his students, argues for the superiority of painting over poetry, music and sculpture.

50. See the translators "Introduction" to *The Lives of the Artists*, xii.

51. Giorgio Vasari, "Preface to Part Three," In *The Lives of the Artists*, 282.

52. Hans Belting, "Vasari and His Legacy," 78.

53. Ibid., 80.

54. Paul Johnson, *The Renaissance: A Short History*, The Modern Library (New York: Random House, 2000), 120.

55. Ibid., 125.

56. Kant's "Analytic of Aesthetic Judgement" belongs more to the eighteenth century which was concerned with the paradigm of taste. In the revised version of the "transcendental Aesthetic" prepared for the second edition of the *Critique of Reason*, Kant actually seems to chid Baumgarten for employing the term "aesthetics" to "designate what others call the critique of taste." See: Immanuel Kant, *Critique of Pure Reason*, ed. by Paul Guyer and Allen W. Wood, The Cambridge Edition of the Works of Immanuel Kant (Cambridge: The Cambridge University Press, 1997), 173 (fn); and. the "Introduction", *Critique of Pure Reason*, 4.

57. Jean-Marie Schaeffer, *Art of the Modern Age*, 12

58. The quote can be found in: David E. Cooper, ed., "Introduction," in *Aesthetics: The Classic Readings*, 2. Look to almost any anthology on aesthetics and it will proclaim the importance of Kant's *Critique of Judgement* to the philosophy of art as well as contain some excerpt from Part I on "Aesthetic Judgement". Moreover, Kant's stature as a founding father of aesthetics seems to be acknowledged beyond art philosophy circles within the broader art world. For example, as Arthur Danto reminds us the well known American art critic Clement Greenberg often referred to the Third *Critique* as the greatest work on aesthetics ever written.

59. Jean-Marie Schaeffer, *Art of the Modern Age*, 9-10, 68-71.

60. Ibid., 4.

61. This cursory introduction to Kant's philosophy is intended to provide a sense of how Kant's thinking represented a break with traditional metaphysics, in particular as a distinct methodological change. The discussion that follows relies principally on the following interpretations include: J.H. Bernard, "Translator's Introduction," to *The Critique of Judgement*; Carl J. Friedrich, ed., "Introduction," in *The Philosophy of Kant: Immanuel Kant's Moral and Political Writings*, The Modern Library (New York: Random House (1949), 1993), xv-lvii (first published by Random House Inc. in 1949); and, Paul Guyer and Allen W. Wood, eds., "Introduction," to *Critique of Pure Reason*, 1-

80.

62. Immanuel Kant, *Critique of Pure Reason*, 146, 192.

63. Ibid., 407 (fn).

64. The complete phrase as translated in the 1997 Cambridge edition Kant's *Critique of Pure Reason* is: "The splendid order, beauty, and providence shown forth everywhere in nature leading to the faith is a wise and great author of the world." Ibid., 118.

65. As quoted in Carl J. Friedrich (ed.), "Introduction," *The Philosophy of Kant*, xxvi-xxvii. From Ernst Cassirer, ed., *Immanual Kant Werke* (1922, Works II, 138).

66. Immanuel Kant's make the comparison himself, see his: "Preface" to *Critique of Pure Reason*, 110, 113 (fn). Also see Carl J. Friedrich, ed., "Introduction," *The Philosophy of Kant*, xxxiv.

67. Carl J. Friedrich, ed., "Introduction," *The Philosophy of Kant*, xv.

68. Ibid., xvi.

69. Ibid., l.

70. Immanuel Kant, *The Critique of Judgement*, 131-132.

71. Ibid., 73-74.

72. Jean-Marie Schaeffer, *Art of the Modern Age*, 24.

73. Immanuel Kant, *The Critique of Judgement*, 48-52.

74. Ibid., 149.

75. Immanuel Kant, *Critique of Pure Reason*, 172-173, 370.

76. Immanuel Kant, *The Critique of Judgement*, 58-59.

77. Ibid., 61.

78. Jean-Marie Schaeffer, *Art of the Modern Age*, 32.

79. Immanuel Kant, *The Critique of Judgement*, 45.

80. Ibid., 44.

81. In *Critique of Judgement*, Kant divides aesthetic judgement into empirical and pure. The former affirms that a certain object is agreeable or disagreeable, whereas the latter asserts that an object is beautiful or sublime. The latter is a judgement of taste proper. This distinction in aesthetic judgement is identified with a matter-form dichotomy. That is, in an empirical aesthetic judgement the feeling of agreeableness or disagreeableness is a determination which finds its basis in the matter of an object, whereas in a pure aesthetic judgement such a determination is based on the form of an object. For discussion see: Theodore Edward Uehling Jr., *The Notion of Form in Kant's Critique of Aesthetic Judgement* (The Hague: Mouton, 1971), 20.

82. Immanuel Kant, *The Critique of Judgement*, 38-39.

83. As Richard Shusterman contends, Kant is not alone among eighteenth-century philosophers in dismissing the social-cultural foundations of aesthetic judgement. Shusterman agues that David Hume in his seminal essay on aesthetics, "Of the Standard of Taste", also minimizes the importance of the social dimension of aesthetic judgement in supposing the necessity of a natural universal basis for a standard of taste which Hume places in "the common sentiments of human nature." See Richard Shusterman, "Of the Scandal of Taste: Social Privilege as Nature in the Aesthetic Theories of Hume and Kant," 96-119.

84. Immanuel Kant, *The Critique of Judgement*, 58.

85. The quotes and general context in the above paragraph are from Kant's Third *Critique*. Ibid., 44-58.

86. Ibid., 150-151.

87. Ibid., 161-162.

88. Ibid., 149-150.

89. Jean-Marie Schaeffer suggests that Kant outlined at least three alternative conceptions of the relation between aesthetic judgement and a theory of art: an intentionalist point of view whereby the art work is characterized as a perfection of a specific end and is situated at the intersection of pure aesthetics and the mechanical arts; a reductionist view, whereby, the fine arts are subsumed within a pure aesthetics through their identification as the product of innate genius; and, an attempted synthesis where the notions of a finality without a specific end and pure judgement of taste are abandoned in the artistic realm. See Jean-Marie Schaeffer, *Art of the Modern Age*, 45-48.

90. J.M. Bernard, "Translator's Introduction," *The Critique of Judgement*.

91. Quote from: Clement Greenberg, "Review of *Piero della Francesca* and *The Arch of Constantine*, both by Bernard Berenson," in *Clement Greenberg: The Collected Essays*

and Criticism, 3: 249. For Greenberg's views on art and his use of Kantian aesthetics also see: "The Identity of Art," in *Clement Greenberg: The Collected Essays and Criticism*, vol. 4. The quote is cited in: Arthur Danto, "From Aesthetics to Art Criticism," 84. Danto goes further in identifying two principles which Greenberg developed based on his reading of Kant: the first is Greenberg's adaption of Kant's notion of the indeterminacy of a judgement of beauty in claiming that quality in art cannot be proven or discerned by means of concepts, but only through the experienced eye; and, the second being the separation of the aesthetic from the practical coupled with the assertion that a judgement of aesthetic quality is tacitly universal, which for Greenberg meant that there was no difference in judging quality in abstract or representation art. For Danto's discussion of Greenberg's reliance on Kantian aesthetics see: Arthur Danto, "From Aesthetics to Art Criticism," 84-93.

92. This paragraph is indicative of Jean-Marie Schaeffer thesis on the relation between Kantian aesthetics and what he calls the speculative theory of art which he argues encompasses the Jena Romantics to the Idealists (F.W.J. Schelling and Hegel) and Existentialists (i.e., Martin Heidigger). In particular, read the following: Jean-Marie Schaeffer, "The Work of Art in Kant and in Romanticism," and "The Birth of the Speculative Theory of Art," in *Art of the Modern Age*, 49-64, 65-72.

93. Charles Taylor, *Hegel*, 18.

94. Ibid.

95. Ibid., 16-21.

96. Ibid., 24.

97. Quote from Novalis as cited in: Jean-Marie Schaeffer, *Art of the Modern Age*, 84-85. Taken from: Novalis, *Schriften*, ed. by P. Kluckholm and R. Samuel (Stuttgart: Kohlhammer, 1960), 3: 685-686.

98. Jean-Marie Schaeffer, *Art of the Modern Age*, 68.

99. For example, Novalis developed, along with a theory of poetry, a metaphysics of the universe based on Plotinus. And Friedrich Schlegel attempted to construct a historical conception of literature which placed poetry at the pinnacle of human knowledge of the infinite. For a thoughtful discussion of the contribution of the Jena Romantics see: Jean-Marie Schaeffer, *Art of the Modern Age*, 72-96 (Novalis), 96-134 (Friedrich Schlegel). Also see: Kristin Pfefferkorn, *Novalis: A Romantic's Theory of Language and Poetry* (New Haven: Yale University Press, 1988); and F. von Schlegel, *Dialogue on Poetry and Literary Aphorisms*, trans. and intro. by Ernst Behler and Roman Struc (University Park: Pennsylvania State University Press, 1968).

100. In the case of F.W.J. Schelling, the relationship between art and philosophy was not always clear. But it seems that in his mature work, in particular *The Philosophy of Art* (1802-03), philosophy is reinstated as a truer type of self-realization of the absolute, with art, grouped with nature, as an incarnation of the absolute. That is, art, through its singularity, represented the infinite as objective reality, whereas philosophy was given a higher standing as ideal reflection. See: Jean-Marie Schaefer, *Art of the Modern Age*, 135-138 (Schelling), 138-181 (Hegel); and, Charles Taylor, "Absolute Spirit," *Hegel*, 465-536; F.W.J. Schelling, *The Philosophy of Art,* ed., trans. and intro. by Douglas W. Stott (Minneapolis: Minnesota University Press, 1989).

101. Jean-Marie Schaeffer, *Art in the Modern Age*, 71.

102. Ibid., 71-72, 97-102.

103. Ibid., 181.

104. Charles Taylor, *Hegel*, 49.

105. Ibid., 45.

106. Ibid., 49.

107. Ibid., 70 (fn 1).

108. G.W.F. Hegel, *Aesthetics*, 11.

109. Ibid., 1-2.

110. Ibid., 9.

111. Charles Taylor, *Hegel*, 472.

112. Jean-Marie Schaeffer, *Art of the Modern Age*, 139.

113. Charles Taylor, *Hegel*, 472.

114. Ibid., 473.

115. G.W.F. Hegel, *Aesthetics*, 31.

116. Charles Taylor, *Hegel*, 471.

117. G.W.F. Hegel, *Aesthetics*, 27.

118. Ibid., 28.

119. Ibid.

120. Ibid.

121. Charles Taylor, *Hegel*, 473.

122. Ibid., 465-479.

123. Jean-Marie Schaeffer, *Art in the Modern Age*, 160.

124. Charles Taylor, *Hegel*, 476-477.

125. See: Ibid., 473, 478-479; Jean-Marie Schaeffer, *Art of the Modern Age*, 161; and, G.W.F. Hegel, "Development of the Ideal into the Particular Forms of the Beauty of Art," in *Aesthetics*, 75-81.

126. G.W.F. Hegel, *Aesthetics*, 89. Also see: G.W.F. Hegel, "The System of the Individual Arts," in *Aesthetics*, 82-90; and, Charles Taylor, *Hegel*, 478.

127. Jean-Marie Schaeffer, *Art in the Modern Age*, 186.

128. Lines of influence are not always easily drawn but, nonetheless, some general points can be made: both theoretical Romanticism and Hegel's theory of art owe a great debt to Kantian aesthetics; most European romantic movements of the nineteenth century borrowed heavily from the German Romantics, in particular Schlegel and Schelling; Hegel's aesthetics eventual took root in universities and was indirectly transmitted through Marxism (for example through the critical theory of key members of the Frankfurt school, notably Theordor Adorno); Schopenhauer's thesis of salvation through art, whether the result of direct reading of his work or not, was one of the most influential *fin-de-siècle* ideas shaping the thinking of such artists as Wagner, Gauguin and the Nabis, Proust, Malevitch and Mondrian; the Romantic and Hegelian notion that art as an internal history as well as Nietzsche's aesthetics of the will to power, arguably played a role in such twentieth century avant-garde movements such as Futurism, Expressionism and Neo-Plasticity, Minimalist and Conceptual art; and, the Kantian idea of finality without purpose nourished the modern art program well into the twentieth century through the writings of such influential critics as Clement Greenberg. See: Arthur Danto, "Introduction: Modern, Postmodern, and Contemporary," in *After the End of Art,* 3-20; Arthur Danto, "From Aesthetics to Art Criticism," in *After the End of Art,* 81-100; Jean-Marie Schaeffer, "What the Speculative Tradition Misunderstood," in *Art in the Modern Age*, 273-308; and, Charles Taylor, "Hegel Today," in *Hegel*, 537-571.

Chapter 5: Taste, Price and Authorship

1. Denis Diderot, *Oeuvres Esthétiques*, ed. by P. Vernière (Paris: Garnier, 1988), 829. Also as cited in: Paul Mattick Jr., "Art and Money," in *Eighteenth Century Aesthetics and the Reconstruction of Art*, 163.

2. Pierre Auguste Renoir as cited in: William G. Grampp, *Pricing the Priceless: Art, Artists, and Economics* (New York: Basic Books Inc., 1989), 15.

3. Pissarro on what he saw as the speculative manipulation by early collectors of Impressionist paintings in a letter to his son (July 1887). See: Camille Pissarro, *Lettres à son fils Lucien* (Paris: Albin Michel, 1950), 158. Also, as cited in: Raymonde Moulin, *The French Art Market: A Sociological View*, trans. by A. Goldhammer (New Brunswick and London: Rutgers University Press, 1987), 205 (fn. 20). The English version is an abridged edition of *Le marché de la peinture en France*, first published in 1967 by Editions de Minuit.

4. The Rembrandt self-portrait was rediscovered under layers of over-painting. Signed by Rembrandt and dated 1634, the painting sold at Sotheby's in July 2003 for $11.3 million (£6.9 million) to the Los Vegas Casino owner Steve Wynn. See: Mark Bourrie, "Finding the Real Rembrandt," in *National Post* (Canada) (February 8, 2003), B3; and, "The Year in Review 2003," *The Art Newspaper* (2003), 68.

5. Mark Bourrie, "Finding the Real Rembrandt." The Rembrandt Project is a huge undertaking and when completed will entail five volumes on the Rembrandt canon. As of 2003, three volumes of *A Corpus of Rembrandt Paintings* have been published by Kluweers/Martinus Nijhoff. Volume 1 deals with the years 1625-1631 (Rembrandt's early years in Leiden), volume 2 deals with the period 1631-1634; volume 3 covers the years 1635-1642; and volumes 4 and 5 will deal with the periods, 1642-1655 and 1655-1669, respectively. See: J. Bruy et.al., *A Corpus of Rembrandt Paintings*. Stichting Foundation, Rembrandt Research Project, with collaboration of L. Peese Binkhorst-Hoffscholte, trans. by D. Cook-Radmore (The Hague and Boston: M. Nijhoff Publishers, 1982). For additional information on the Rembrandt Project see: http://park.org/Netherlands/pavilions/ culture/rembrandt/rrp/.

6. Neil De Marchi and Hans J. Van Miergroet, "Pricing Invention: "Originals," "Copies," and their Relative Value in Seventeenth Century Netherlandish Art Markets," in *Economics of the Arts: Selected Essays*, Victor A. Ginsburgh and Pierre-Michel Menger, eds. (Amsterdam and New York: Elsevier, 1996), 28, 55 (table 2). Also see: J.M. Montias, *Artists and Artisans in Delft: A Socio-Economic Study of the Seventeenth Century* (Princeton: Princeton University Press, 1982), 259 (table 8.6).

7. This argument on the changing social-cultural identity of rare art works is initially developed in the previous chapter and, as discussed in this chapter, is based on Gerald

Reitlinger's essay on, "Genius and Craftsmanship, a Tale of Two Markets," in *The Economics of Taste: The Rise and Fall of Picture Prices , 1760-1960*, 3 vols. (New York: Hacker Art Books, 1982), II: 1-10. Volume I of Reitlinger's three volume work was first published in 1961 by Barrie and Rockliff (Barrie Books Ltd.), London. Volumes II and III were first released in 1963 and 1970, respectively.

8. Based on research done in 2002 for *The Art Newspaper*, the £310,400 paid by the Czar of Russia for da Vinci's *Benois Madonna,* when measured in 2002 values (£15.46 million), was the sixth highest price ever paid for an Old Master. Rubens's *Massacre of the Innocents* (2002, £49.5 million) ranks as the most expensive Old Master ever purchased at auction. Recently added to this top ten list was Mantegna's *Descent into Limbo* which was sold at Sotheby's New York for $28.6 million (or about £18.4 million) in January 2003. This sale would drop the ranking of da Vinci's *Benois Madonna* to the seventh most expensive Old Master painting ever sold at auction. However, this is all somewhat misleading for if this or any other da Vinci actually came up for sale today it would most likely earn a still higher price. See table 2 in the appendix for a listing of the top prices ever paid for Old Master paintings.

9. The Orléans collection was formed in the first half of the eighteenth century. Many exceptional pictures were bought between 1715-1723 by Phillipe Duke of Orléans (the nephew of Louis XIV) when he was Regent of France. At it height the Gallery contained about 400 pictures including twelve alleged Rubens (9 of which are still admitted to the canon) and 27 alleged Titians (as many as 2/3 of which have not stood-up). Among the Rubens were the House of Windsor's *St. George* (landscape) and the National Gallery's (London) *Judgement of Paris*. Other notable works included Rembrandt's *Mill*, and Tintoretto's *Origin of the Milky Way*. The Orléans sales took place over several years from 1792-1800. The Houghton Hall collection was amassed by Robert Walpole in the seventeen-twenties and thirties. In 1777, John Wilkes declared it second only to the Orléans Gallery, when he urged the British Parliament to buy it. In the end it was Empress Catherine of Russia who bought the collection for about £40,000. The prices of individual works was fixed by the English painter, Benjamin West. For an account of the sale of Orléans collection see: Gerald Reitlinger, "The Revolutionary and Napoleonic Period, 1792-1815," I: 26-38. For further information on the Houghton Hall collection and sale see: Gerald Reitlinger, "Art Collecting in the Eighteenth Century, 1760-1792," I: 21-25.

10. Gerald Reitlinger, "Genius and Craftsmanship, a Tale of Two Markets," II: 9.

11. All price comparisons in this paragraph are from: Gerald Reitlinger, "Genius and Craftsmanship, a Tale of Two Markets,"II: 1-10. In the latter part of the eighteenth century, the Houghton Hall and Orléans galleries were considered the most important collections of Old Masters – the former was sold for £40,000 and the latter £44,000. Reitlinger points out this was roughly the equivalent of the value of furniture provided by only two suppliers over a nine to ten year period to the French court. Ibid., 5-6.

12. Martin Wackernagel, *The World of the Florentine Renaissance Artist: Projects and Patrons, Workshop and Art Market*, trans. by Alison Luchs (Princeton, N.J.: Princeton University Press, 1981), xi. Wackernagel's book was first published in German by Verlag E.A. Seemann, in Leipzig Germany in 1938.

13. See: J.M. Montias, *Artists and Artisans in Delft*; Iain Pears, *The Discovery of Painting: The Growth of Interest in the Arts in England 1680-1768* (New Haven and London: Yale University Press, (1988) 1991); Michael North and David Ormrod, *Art Markets in Europe, 1400-1800* (Aldershot, Hampshire: Ashgate Publishing Limited, 1998). Other works and collected studies that may be of interest include: Francis Haskell, *Patrons and Painters. A Study in the Relations between Italian Art and Society in the Age of Baroque* (New Haven and London: Yale University Press, 1980); Z.Z Filipczak, *Picturing Art in Antwerp, 1550-1700* (Princeton: Princeton University Press, 1987); J.M. Montias, *Veermer and his Milieu: A Web of Social History* (Princeton: Princeton University Press, 1989); R.A. Goldthwaite, *Wealth and the Demand for Art in Italy 1300-1600* (Baltimore: John Hopkins University Press, 1993); Victor A. Ginsburgh and Pierre-Michel Menger, eds., *Economics of the Arts*; Michael North, *Art and Commerce in the Dutch Golden Age* (New Haven and London: Yale University Press, 1997).

14. See the "Translator's Introduction" for a summary of Wackernagel's study and its art historical significance: Martin Wackernagel, *The World of the Florentine Renaissance Artist*, xiii-xix. For further consideration of Wackernagel's place in art historical study see: W. Eugene Kleinbauer, ed., *Modern Perspectives in Western Art History: An Anthology of 20th Century Writings on the Visual Arts* (New York: Holt, Rinehart and Winston, 1971), 83; and, Peter Burke, *Culture and Society in Renaissance Italy* (New York: Scribner, 1972), 16-7.

15. Martin Wackernagel, *The World of the Florentine Renaissance Artist*, 295.

16. Ibid.

17. Hanna Lerner-Lehmkuhl's study on the Florentine art market of the early Renaissance, which Wackernagel relies on for much of his price comparisons, was published in German in 1936 (*Zur Struktur und Geschichte des florentinischen Kunstmarktes im 15. Jahrhundert,* Wattenscheid, 1936). For the discussion on prices and the marketplace see: Martin Wackernagel, "Business Practices in the Workshop and Art Market," in *The World of the Florentine Renaissance Artist*, 338-347.

18. Ibid., 338-339 (fn. 2).

19. Ibid., 341-342 (fn. 11).

20 Ibid., 342-343, 346-347.

21. J.M. Montias, *Artists and Artisans in Delft*, 43.

22. Ibid., 43-44, 60-62.

23. See: Arjan de Koomen, "The World of 17th-Century Artists," in *Netherlandish Art, 1600-1700*, Jan Piet Filedt Kok et.al., eds. (Amsterdam: Waanders Publishers, 2000), 21-22. Data on the number of paintings is from: A.M. van der Woude, "The Volume and Value of Paintings in Holland at the Time of the Dutch Republic," in *Art in History, History in Art: Studies in Seventeenth-Century Dutch Culture*, David Freedberg and Jan de Vries, eds., Getty Center for the History of Art and the Humanities (Chicago: University of Chicago Press,1991), 285-329. Estimates on the number of painters is from: Jan de Vries, "Art History," in *Art in History, History in Art*, 273. For a broader perspective of the Dutch economy of the times see: Jan de Vries, *The First Modern Economy: Success, Failure and Perseverance of the Dutch Economy, 1500-1815* (Cambridge: Cambridge University Press, 1997).

24. Arjan de Koomen, "The World of 17th-Century Artists," 23.

25. J.M. Montias, *Artists and Artisans in Delft*, 193-194. For information on patronage in seventeenth century Delft, see pages 183-194.

26. Ibid., 197. For further information on prices paid for works by Vermeer see: John Nash, *Vermeer* (London: Scala Books in association with Rijksmuseum, 1991), 21-22, 24-25.

27. Information on comparative prices in the Dutch Republic is taken from Mike Dash's book on the speculative tulip boom which swept the United Provinces in the first half of the seventeenth century. Mike Dash, *Tulipomania* (London: Indigo, 2000).

28. J.M. Montias, *Artists and Artisans in Delft*, 196.

29. Ibid., 203.

30. Ibid., 206-218.

31. Mike Dash, *Tulipomania*.

32. Peter Watson, *From Manet to Manhattan: The Rise of the Modern Art Market* (Random House: New York, 1992), 49.

33. Iain Pears, *The Discovery of Painting*, 51.

34. Between 1626 and 1628 Charles I of England bought the Gonzaga collection from Vincenzo II only to be subsequently sold off under Cromwell. It is reputed that it took eighty heavily loaded carriages to haul away the massive collection from the Renaissance patrons. The Gonzaga family collected not only paintings but many other *objet d'arts*, jewels, weapons, music scores, etc. Included in the collection were pictures by Mantegna

(e.g., *Lamentation over the Dead Christ*), Rubens (e.g., *Council of the Gods*), Tintoretto (*The Rape of Helen*), Veronese (e.g., *Judith with the Head of Holofernes*), and Correggio (e.g., *Venus, Cupid and Mercury*). Information on the Gonzaga collection found on-line (May, 2004) at: http://www.italien.historicum.net/aktuelles/it_nachrichten2.html.

35. Iain Pears, *The Discovery of Painting*, 51-54.

36. The auction sale originated in Holland and Flanders in the early sixteen hundreds, and according to Pears only reached England in 1676 when it was used to sell the library of Lazarus Seeman. As Pears points out variants of the auction, including 'outroping' and 'sale by candle', were in use earlier in the century, but these practices did not seem to be a popular choice for the sale of luxury goods. Ibid., 57.

37. Ibid., 57-59.

38. Ibid., 60.

39. Ibid., 57-67. Also see Peter Watson, *From Manet to Manhattan*, 59-61.

40. Iain Pears, *The Discovery of Painting*, 68-71.

41. Ibid., 67-77.

42. Ibid., 72.

43. Ibid., 74.

44. Ibid., 74-75.

45. For further detail on the practices of early English dealers and their impact on the evolution of the early English art market see Ian Pears's discussion. Ibid., 67-101.

46. The data on prices and pictures are drawn from Pears' discussion of the early English dealers. Ibid., 89, 90-91, 93.

47. Ibid., 103; and Peter Watson, *From Manet to Manhattan*, 54.

48. Gerald Reitlinger, "Art Collecting in the Late Eighteenth Century," I: 4.

49. Ibid.

50. Gerald Reitlinger, "Art Collecting in the Late Eighteenth Century," I: 3-25; and individual artists listing also in *The Economics of Taste*, I: 397-398 (Moroni), 407-408 (Parmegianino), 426-427 (Reni), 462-463 (Tintoretto), 464-467 (Titian), 484-486 (Veronese).

51. See footnote 9. For more details on the sale of the Houghton collection see: Gerald Reitlinger, "Art Collecting in the Late Eighteenth Century," I: 16-25.

52. Ibid., 14-15; and 421-426 (Rembrandt).

53. Gerald Reitlinger, "The Rewards of Living Painters. The Georgians, 1760-1820", I: 69-71; "The Rewards of Living Painters. The Pro-Victorians, 1800-1860," I: 81-107; and for price data on individual painters, 429-433 (Reynolds); 493-494 (West).

54. Gerald Reitlinger, "Old Masters, 1815-1884," I: 136.

55. See for a brief description of this canon see chapter 4 in this text, footnote 9.

56. Printed catalogues for auctions first began to appear in the 1740s. Mariette and Gersaint played a significant role in developing a system of classification for pictures (i.e., a way of assessing the greater or lesser value fo a picture). Pierre Remy and François Colins helped to modernize this system by further emphasizing the author of a picture, attributing it, or comparing it, with similar works. In other words, at this time there was the beginning of a shift in the way value was assessed, away from the content or subject matter of a picture towards the greater or lesser authenticity of the work. In the 1740s, the majority of Parisian auctions were reportedly run by Gersaint, however, other names emerged during the following decades, in particular Jean-Baptiste Glomy, Pierre-François Basan, Pierre Remy, François Joullain, Alexandre Paillet and Le Brun. See: François Marandet, "Pierre Remy: The Parisian Art Market in the Mid-Eighteenth Century, 1715-97," (http://findarticles.com). One of the earliest publications listing pictures for sale with information on provenance and prices was C.F. Joullain's *Fils's Répertoire de tableaux, dessins et estampes, ouvrage utile aux amateurs* (1783). Reference cited in: Peter Watson, *From Manet to Manhattan*, 56 (fn. 2).

57. As Peter Watson comments, Jean-Baptiste-Pierre Leburn was perhaps the first dealer-connoisseur to realize the "commercial significance" of the fact that there were many unknown artists whose works were as good as, or better than, many recognized painters. Thus Lebrun became known as someone with "an eye" for good painting and an ability to purchase quality paintings of unknown artists cheaply and to then rehabilitate their reputations. See: Peter Watson, *From Manet to Manhattan*, 56.

58. Ibid., 59.

59. Gerald Reitlinger, "The Old Masters, 1815-1884," I: 108.

60. Peter Watson, *From Manet to Manhattan*, 69.

61. Gerald, Reitlinger, "The Old Masters, 1815-1884," I: 108-110,139, 278-288.

62. Joseph Duveen was a leading dealer in Old Masters, *objet d'arts* and antiquities of the late nineteenth and twentieth centuries; and his client list read like a 'who's who's' of prominent, turn-of-the-century American industrialists. Duveen and Berenson first teamed-up in the late 1890s when Duveen needed an art scholar to properly catalogue the collection of a German banker, Oskar Hainauer, which Duveen has purchased for about $1 million. For a brief account of their dealings and relationship see: Peter Watson, *From Manet to Manhattan*, 136-144. Also see: S.N. Behrman, *Duveen* (New York: Random House, 1952); and, Ernest Samuels, *Bernard Berenson: The Making of a Connoisseur* (Cambridge: Harvard University Press, 1980).

63. The Blenheim Palace collection was built up over the centuries. The picture sales negotiated by the Duke of Marlborough in 1884-1885 was second to none until the turn of the century. The collection included Raphael's *Ansidei Madonna*, Van Dyck's equestrian *Charles I* (both pictures were purchased by the British Parliament in 1885 after protracted negotiations) and several alleged Ruben's, including *Andromenda* and *The Venus and Adonis*.

64. Gerald Reitlinger, "The Treasures Depart, 1884-1914," I: 175-206. For more information on collectors see: Pierre Cabanne, *The Great Collectors* (London: Cassell, 1963); W.G. Constable, *Art Collecting in the United States of America* (London: Nelson, 1964); and, Anne Distel, *Impressionism: The First Collectors* (New York: Harry N. Abrams, 1990).

65. Peter Watson provides 1990 price equivalencies for select sales prices from earlier periods. See: Peter Watson, *From Manet to Manhattan*, 102-106.

66. Gerald Reitlinger, "The Treasures Depart, 1884-1914," I: 175-206.

67. All prices are from: Peter Watson, *From Manet to Manhattan*, 101-106.

68. Ibid., 105.

69. Ibid., 106.

70. Gerald Reitlinger, "The Golden Age of Living Painters, 1860-1884," I: 172.

71. *La peau de l'ours,* which may well have been the first art fund, was created in 1904 by André Level and twelve other friends and colleagues. The objective from the start was to purchase contemporary art at low prices for resell within a ten-year period. This case will be further discussed in Chapter six but for a brief account see: Michael C. Fitzgerald, *Making of Modernism: Picasso and the Creation of the Market for Twentieth-Century Art* (Berkeley: University of California Press, 1996), 15-46.

72. Raymonde Moulin, *The French Art Market*, 12.

73. Ibid., 12 and 204 (fn 7).

74. Peter Watson, *From Manet to Manhattan*, 104.

75. It is fairly well known that the term 'impressionnistes' was initial intended to be pejorative. The name was given to this group of painters by the critic Louis Leroy in his review of their first exhibit in 1874 written in *Le Charivari*. He adapted the title from Monet's painting, *Impression: sunrise*. His article, titled "The Exhibition of the Impressionists" was a satirical commentary on works which to the author's eye appeared half finished and lacking in painterly workmanship. As Leroy wrote, "Wallpaper in its embryonic state is more finished ...." The title caught-on almost immediately, although the artists themselves initially refused to use it (there were eight exhibitions in total and none of them used the title). Eventually they did come to accept the title, and it was Renoir who, in 1877, encouraged the art critic Georges Rivière to produce a weekly journal entitled *L'Impressionnistes* which ran four issues between April 6 to 28 during the group's third exhibition. For a discussion of the Impressionists and their role in art history see: Bernard Denvir, *Impressionism: The Painters and the Paintings* (New York: Mallard Press, 1991). The quote by Leroy is cited in chapter one of Benard Denvir's book (p. 10).

76. For example, the early collectors of Cézanne's pictures were predominately French and included many fellow artists (i.e., painters, poets and writers) and ardent art lovers. By the late 1890s, his market had widened to include a wider range of middle and upper class collectors including several dealers (e.g., Ambroise Vollard, Paul Durand-Ruel), industrialists, politicians and other professionals (e.g., bankers, dentists, doctors) from a range of countries (e.g., Russia, Germany, the United States). For a listing of the collectors of Cézanne's works see: Françoise Cachin, et.al., *Cézanne* (Philadelphia: Philadelphia Museum of Art, 1996), 570-579.

77. The Society of Independent Artists was established on June 11, 1884, and its manifesto was published in the *Moniteur des arts* on October 17, 1884. See: Raymonde Moulin, *The French Art Market*, 13, 23 and 204 (footnote 11). Also see: Pierre Angrand, *Naissance des artistes indépendants, 1884* (Paris: Nouvelles Editions Debresse, 1965).

78. Raymonde Moulin, *The French Art Market*, 23.

79. These standard price levels tend to be dictated by local market conditions but, as a general rule of thumb, the relatively unknown artist tries to take into consideration direct costs such as materials, transportation of piece, overhead and a possible mark-up. What seems to be generally undervalued in the contemporary context, and in particular for the unknown artist, is the labour-time costs. From the perspective of a potential purchaser, all this seems to add to the lack of pricing transparency surrounding art works. As John Maynard Keynes commented in the late 1920s: "The question of pricing policy is a very difficult one.... It is clear that some uniformity of standard must be maintained or otherwise buyers will become perplexed and doubtful whether they are receiving fair and

uniform treatment." For a sampling of Keynes' views on art and pricing see: John Maynard Keynes, "London Group," and "London Artists' Association," in *Collected Writings of John Maynard Keynes*, for the Royal Economic Society (London: Macmillan; New York: St. Martin's Press, 1971-1989), vol. XXVIII: 296-297 and 297-307.

80. This brief description of the structure of the modern art market is drawn from a number of sources, including the following: Louis-André Gérard-Varet, "On Pricing the Priceless: Comments on the Economics of the Visual Art Market," in *European Economic Review*, no. 39 (1995), 509-518; Alice Goldfarb Marquis, *The Art Biz* (Chicago: Contemporary Books, 1991); William D. Grampp, *Pricing the Priceless*; and, Raymonde Moulin, *The French Art Market.*

81. Georgina Adam, "Overview of 2000: A dramatic year," *The Art Newspaper*, No. 111 (February 2001), 57.

82. Ibid.

83. Elspeth Moncrieff, "Old Master Paintings: No million-dollar barriers any more," in *The Art Newspaper*, No. 109 (December 2000), 70.

84. For example, two major paintings that sold in the fall 1999 give a longer run view of the Old Masters market: Fragonard's *Le Verron* (the seduction) made £5.28 million ($8.53 million) at Christie's in December 1999 which was, in nominal terms, roughly twenty times more than what it sold for in February 1983 when it made FF 2.5 million (about £250,000); and Van de Velde the Younger's *The Morning Sun* made £1.59 million ($2.59 million) at Sotheby's in December 1999 which was about twenty-five times the £65,000 it made at Christie's in April 1981. Ibid.

85. The Art Sales Index (ASI) figures are based on an annual survey of approximately 75 percent of the auction houses world wide. For example, ASI's results for the year ending July 31, 2003, were based on findings from 424 auction houses. See: Georgia Adam, "Statistics confirm slide," in *The Art Newspaper*, no. 140 (October, 2003), 44; Georgia Adam and Roger Bevan, "Strong bidding, powerful prices," in *The Art Newspaper*, no. 142 (December 2003), 39.

86. Prices found in: James Sproule, "Why we will never see a Breughel at £38,000 again," in *The Art Newspaper*, no. 105 (July-August 2000), 66. Inflation adjustment made for the year 2000 and exchange rate of pounds to US dollars at 1:1.46 as per December 18, 2001.

Chapter 6: The Economics of Art

1.Quote found in: Carter Ratcliff, *Andy Warhol* (New York: Abbeville Press, 1983), 108.

2. Peggy Guggenheim, *Out of This Century: Confessions of an Art Addict* (New York: Macmillan, 1979), 110. In the 1950s, Guggenheim moved to Venice and eventually turned her *Palazzo Venier dei Leoni* into a museum. Her *Palazzo* is, today, a branch of the Guggenheim Museum (New York) founded by Solomon R. Guggenheim and administered by the Guggenheim Foundation.

3. William N. Goetzmann, "Accounting for Taste: Art and the Financial Markets Over Three Centuries," in *The American Economic Review*, vol. 83, no. 5 (December 1993), 1373.

4. Calculation is based on data presented in "Table 1 -- Annualized Returns to Art Investment, 1720-1990" of: William N. Goetzmann, "Accounting for Taste," 1373.

5. Peter Watson, "Sotheby's vs. Christie's: Uncivil War," in *New York Times*, May 29, 1990. Also see the notes to table 6 in the appendix to this study for information on comparative prices in 2002 values.

6. Jiangping Mei and Michael Moses, "Art as an Investment and the Under Performance of Masterpieces: Evidence from 1875-2000," internet ed., Stern School of Business, New York University (May 2001), 1-37.

7. William N. Goetzmann, "Accounting for Taste," 1373.

8. Olivier Chanel, "Is Art Market Behaviour Predictable?" in *European Economic Review*, Vol. 39 (April 1995), 519-20.

9. William N. Goetzmann, 1993, "Accounting for Taste," 1375.

10. Thane Peterson, "Landscape with ascending figures: Art auctions are bringing the best prices since their late '80s heyday," in *Business Week* (December 25, 1995), 124.

11. William N. Goetzmann, 1993, "Accounting for Taste," 1375.

12. William Goetzmann, "How Costly is the Fall from Fashion? Survivorship Bias in the Painting Market," in *Economics of the Arts: Selected Essays*, Victor A. Ginsburgh and Pierre-Michel Menger, eds. (Amsterdam and New York: Elsevier, 1996), 71.

13. As Reitlinger put it, by the 1860s the "Italianizing Dutchmen" such as Berchem, Wouvermann and the Both brothers were rated below the true realists. In the case of Vermeer, his market was slow to gain ground following the rediscovery of his work by the art critic-collector Théophile Thoré in the early 1850s (Thoré published an article on

Vermeer in 1866 in *Gazette de Beaux Arts*). In 1870, Vermeer's *Lacemaker* earned only £51 in Rottendam, but by 1889 his *Love Letter* sold for £2,580 in Paris. See: Gerald Reitlinger, *The Economics of Taste,* I: 12-13, 138-141.

14. See: Michael Tucker, Walter Hlawischka and Jeff Pierne, "Art as an Investment: A Portfolio Allocation Analysis," in *Managerial Finance*. Vol. 21, no. 6 (1995), 16-24; "Impressionist art at auction," in *Art News*, Internet ed., July 2000 (*http://www.artcult.com/na87.html*); and, "Top 20 most expensive works of art at auction, January to December, 1999," in *The Art Newspaper,* no. 100 (February 2000), 61.

15. In the late eighteen hundreds when British estates began to liquidate assets, the British Parliament interceded in the sale of a number of art works on behalf of the British National Gallery. The most famous example at the time was the purchase of Raphael's *Ansidei Madonna* from the Duke of Marlborough for £70,000. A more recent example was the National Gallery's bid to retain Raphael's *Madonna of Pinks* which had been on long-term loan to the Gallery from its owner, the Duke of Northumberland. The Duke initially sold the painting to the Getty Museum for $50 million subject to an export license which was refused in 2003 on condition that the National Gallery be given a chance to match the price. In early 2004, The Gallery was able to secure the purchase. As recently reported, the French government enacted a new law to help it acquire 'national treasures'. If an art work is deemed culturally significant and denied an export license then the government has 30 months to make an offer to purchase the work at international market value. In 2002, the French government also passed a new law to allow private firms to acquire works of art considered 'national treasures' at international market prices and to receive a tax deduction of 90 percent of the price. See: Martin Bailey, "The art the UK tried to save in 2003," in *The Art Newspaper*, no. 143 (January 2003), 6; and, Martin Bailey, "London secures Raphael", in *The Art Newspaper*, no. 145 (March 2004), 18. Also see: "New laws to protect France's national treasures," in *The Art Newspaper*, no. 117 (September 2001), 1; and "Tax incentive to save French heritage", in *The Art Newspaper*, no. 129 (October 2002), 1.

16. Georgina Adam, "Artful investment?" in *The Art Newspaper*, no. 109 (December 2000), 69. The quote is from an interview with Dr. Valika Foundoulakis, a banker with the UBS's desk in London as reported in the article.

17. This estimate is made by the Japanese journalist and art market expert Kay Itoi as reported in *The Art Newspaper*. See: Kay Itoi, *Kieta meiga wo sagashite* (*In Search of Lost Masterpieces*) (Tokyo: Jiji Press, 2001). Also see: Georgina Adam, "Japan loses its shame over selling," in *The Art Newspaper*, no. 129 (October 2002), 47.

18. See: Georgia Adam, "Japanese bad-debt art sells in Paris," in *The Art Newspaper*, no. 94 (July-August 1999), 1; "Japanese "bubble" period art: Museum to authenticate works of art for businesses," in *The Art Newspaper*, no. 96 (October 1999), 3; Georgia Adam, "Japanese banks slowly cut their loses," in *The Art Newspaper*, no. 105 (July-August

2000), 45; Fiona Wilson, "National museums buy art from failed bank," in *The Art Newspaper*, no. 110 (January 2001), 43; and Fiona Wilson, "The final clear out: Another $1 billion of art still to come," in *The Art Newspaper*, no. 114 (May 2001), 67.

19. John Picard Stein, "The Monetary Appreciation of Paintings," in *Journal of Political Economy*, vol. 85, no. 5 (October 1977), 1021.

20. James Pesando, "Art as an Investment: The Market for Modern Prints," in *American Economic Review* (December 1993), 1081.

21. Peter Watson, *From Manet to Manhattan,* 447-455.

22. Rita Reif, "De Kooning painting ties auction record," in *New York Times* (May 5, 1987).

23. Alice Goldfarb Marquis, *The Art Biz*, 161.

24. As Peter Watson remarks, this figure is based on the sale of only part of the Fund's portfolio, namely Impressionist and Modern works. Based on an interview he conducted with the Fund's secretary and art consultant, Watson learned that when one looks at the entire holdings the figures are somewhat different. As of January 31, 1992, the Fund had sold 1,842 of the 2,232 objects it had purchased which provided a nominal return of 13.93 precent or 6.07 percent when inflation is taken into account. This figure also included direct costs such as restoration. According to the Fund's own calculations their aggregate art investment at the time out performed Treasury bills by 1.5 to 2.0 percent. See: Peter Watson, *From Manet to Manhattan,* 354-355 and 423-424.

25. "Japanese construction firm Maruko investing in Art," in *The Art Newspaper* (February 1991).

26. Artemis Fine Arts Inc. was founded in London in 1970 as a dealership for paintings and drawings from the sixteenth to the early twentieth century. In 1996 it opened a New York Branch. Artemis was founded by the Belgian banker Baron Léon Lambert together with the painting connoisseur and dealer David Carritt. In 1995, it acquired the German prints and drawings dealership of C.G. Boerner, founded in 1826 and currently based in Düssseldorf. See: http://www.artemisfinearts.com. Also see: "Huge rise in Artemis Fine Arts profitability," in *The Art Newspaper*, no. 123 (March 2002), 32.

27. As of December 2003, the Fine Art Fund had raised about $70 million and was reportedly ready to start buying art works early in 2004. See: Georgia Adam, "New $350 million art fund launched," in *The Art Newspaper*, no. 123 (March 2002), 29; and, James Sproule and Georgina Adam, "The Pros and Cons of Speculating on Art," in *The Art Newspaper*, no. 142 (December 2003), 42.

28. Lee Seldes, *The Legacy of Mark Rothko*, updated ed. (New York: Da Capo Press, 1996), 236-237.

29. Sebastian Smee, "The Guggenheim Does It Again," in *The Art Newspaper*, no. 118 (October 2001), 12.

30. Keynes made this statement, in the forward to an exhibition catalogue (October 21, 1921, exhibition at Mansard Gallery) when he was president of the "London Group" of artists. This Group emerged as an amalgamate of several groups of artists in November 1913. While the Group initially excluded such luminaries as Roger Fry, Duncan Grant and Vanessa Bell, they became members in 1920. See: John Maynard Keynes, "London Group," in *The Collected Works of John Maynard Keynes*, vol. xxviii, 296-297.

31. In 2003, the Italian art publisher, Alberto Cetti Serbelloni founded a new art index called Gabrius. The new index reportedly offers 400,000 art prices with images and complete catalogue entries. Gabrius provides a 'confidence index' correlating estimates for an artist's work with the actual price made while providing adjustments for inflation. The company was suppose to add two additional indices: a double sales index tracking repeat sales; and, a hedonic tool which would enable the user, by entering the artist, date, size, condition, stock exchange performance, and provenance, to estimate what a work of art is worth. Gabrius joins other well-established art price indices which operate on-line, including: Art Price, Artnet and Art Sales Index. The new hedonic tool would be a new feature to on-line informational services. See: Georgian Adam, "Art data: bringing down the barriers," in *The Art Newspaper*, No. 137 (June 2003), 40.

32. See various authors including: William J. Baumol, "Unnatural Value: or Art Investment as Floating Crap Game," 10-11; William N. Goetzmann, "Accounting for Taste"; William N. Goetzmann, "The Informational Efficiency of the Art Market," *Managerial Finance*, vol. 21, no. 6 (1995), 25-26; Louis-André Gérard-Varet, "On Pricing the Priceless: Comments on the Economics of the Visual Art Market," 509-518; Victor A. Ginsburgh and Philippe Jeanfils, "Long-Term Co-Movements in International Markets for Paintings," in *European Economic Review*, 1995, vol, 39 (April 1995), 538-548.

33. In 1999 Phillips was taken over by the French luxury goods company Louis Vuitton Moet Henessy (LVMH). From 1999 to 2001, of the three big art auction houses, Phillips seemed to be the most aggressive user of price guarantees, sometimes offering prices that were well above the estimated value of an art work in order to get the business. *The Art Newspaper* estimated that Phillips spent over $90 million guaranteeing pictures which sold badly or remained unsold at auction in 2000 and the first half of 2001. In early 2002, LVMH sold a majority share in Phillips. At the time, it was expected that the auctioneer would no longer pursue such an aggressive price guarantee strategy. Indeed in 2003 the new firm, Phillips de Pury and Luxembourg seemed to be repositioning itself as a specialist in Twentieth and Twenty-First century art (i.e., Contemporary art and

photography). See the following articles by Georgina Adam: "Bonhams and Brooks merge with Phillips," in *The Art Newspaper*, no. 117 (September 2001), 66; "Phillips blamed for LVMH profit fall," in *The Art Newspaper*, no. 118 (October 2001), 65; "Bernard Arnault throws in the towel," in *The Art Newspaper*, no. 124 (April 2002), 35; "Phillips de Pury & Luxembourg lite," in *The Art Newspaper*, no 138 (July-Aug 2003), 43.

34. See: Peter Watson, "Selling Dr. Gachet," in *From Manet to Manhattan*, 3-26.

35. Quote appears in: Peter Watson, *From Manet to Manhattan*, 8.

36. Ibid.

37. Ibid., 9.

38. Ibid., 24.

39. William J. Baumol, "Unnatural Value," 10-14.

40. Peter Watson, *From Manet to Manhattan*, 26.

41. Georgina Adam, "Japan loses its shame over selling," 47.

42. As of fall 2001 the highest nominal price paid for an Old Master drawing was £8,143,750 ($11.2 million). Two drawings hold this record: Michelangelo's *Study for the Risen Christ* sold at Christie's in London, in the summer 2000; and Leonardo da Vinci's *Horse and Rider* a study for his unfinished *Adoration of the Magi* in the Uffizi Gallery in Florence, sold at Christie's in London, in July 2001. See: Elspeth Moncrieff, "London triumphs with Leonardo and Michelangelo," in *The Art Newspaper*, no. 117 (September 2001), 68.

43. Anna Somers Cocks, "Growing up," in *The Art Newspaper*, no.102 (April 2000), 1.

44. Elspeth Moncrieff, "Interview with Robert Noortman, Old Masters dealer: Why I spent over £ 27M on two Rembrandts," in *The Art Newspaper*, no. 112 (March 2001), 72.

45. Ibid.

46. Ibid.

47. The market for quality Old Masters continued to be strong through the summer of 2001. See two articles by Elspeth Moncrieff: "Premiums for good condition – and charm,"in *The Art Newspaper*, no. 117 (September 2001), 67; and, "A new event: Master drawings week in London, 8 to 13 July," in *The Art Newspaper*, no. 116 (July-August 2001), 70.

48. Paul Jeromack, "Financier's Old Masters to sell through dealer, not at auction," in *The Art Newspaper*, no. 103 (May 2000), 63.

49. William D. Grampp, *Pricing the Priceless*,153-156; and Christine Brown, "Welcome Suckers!" *Forbes* (June 25, 1990), 282-283.

50. Andy Warhol and Pat Hackett, *POPism: The Warhol '60s* (New York: Harper & Row, 1980), 20-21.

51. Phoebe Hoban, *Basquiat: A Quick Killing in Art* (New York: Viking, 1998).

52. Michael C. Fitzgerald, *Making Modernism*, 24.

53. Ibid., 32-33.

54. Ibid., 30-37.

55. The Armory Show, which was held at the 69th Regiment in New York in 1913 and subsequently travelled to Chicago and Boston, introduced the then new art of Europe, including Post-Impressionism and Modern art, to a broader American public. Prominent among the exhibits were works by Cézanne, Gauguin, van Gogh, Redon, Derain, Brancusi, Duchamp-Villon as well as Marcel Duchamp's infamous *Nude Descending a Staircase*. The Show's principal organizer was the artist Arthur Davies (although many others were involved and some played prominent roles such as John Quinn) and it was largely financed by Lillie P. Bliss, Gertrude Vanderbilt Whitney and Mrs. Cornelius J. Sullivan. The show was panned by the critics and was not much of a financial success. However, it did expand the horizons of the North American art scene, stimulating an appetite for progressive art which until that point was extremely limited. For details see: Milton Brown, *The Story of the Armory Show* (New York: Abbeville Press, 1988); and Martin Green, *New York 1913: The Armory Show and the Patterson Strike Pageant* (New York: Charles Scribner's Sons, 1988). For an interesting account of the role of women in supporting the Armory Show and more generally in helping to legitimatize progressive art in America see: Kathleen D. McCarthy, *Women's Culture: American Philanthropy and Art, 1830-1930* (Chicago: University of Chicago Press, 1991).

56. Michael C. Fitzgerald, *Making Modernism*, 43.

57. Ibid., 198-199.

58. As mentioned above this account of the brief creative life of the New York artist is based on Phoebe Hoban's book, *Basquiat.* The complete citation for the Rene Ricard article is: Rene Ricard, "The radiant child," in *Artforum* (December 1981), 35-43.

59. As cited in: Phoebe Hoban, *Basquiat*, 245. See: Cathleen McGuigan, "New art, new money: The marketing of an American artist," in *The New York Times Magazine*

(February 1985), 20-28, 32-35, 74.

60. All figures and dates cited above are based on Phoebe Hoban's biography of the artist. In particular see: Phoebe Hoban, *Basquiat*, 64-80, 83, 88-90, 181, 191, 220-226, 236-237, 250, 318-331.

61. Roger Bevan, "It's the fame, not the name, that counts," in *The Art Newspaper*, no. 115 (June 2001), 65; and, Roger Bevan, "Auction records pile up as the party refuses to end," in *The Art Newspaper*, no. 126 (June 2002), 45.

62. Hilton Kramer, *Arts Review*, 1987.

63. Richard Rush, *Art as an Investment* (Engelwood Cliffs, N.J.: Prentice-Hall, 1961).

64. Gerald Reitlinger, *The Economics of Taste*, III: 11.

65. Ibid.

66. Geraldine Keen, *The Sale of Works of Art: A Study Based on the Time-Sotheby Index* (London: Nelson, 1971), 26.

67. Ibid.

68. Peter Watson, *From Manet to Manhattan*, 416-417. For another account of the Scull story see: Calvin Tomkins, *Off the Wall: Robert Rauschenberg and the Art World of Our Time* (New York: Doubleday, 1980), 296-297.

69. Robert C. Anderson, "Painting as Investment," in *Economic Inquiry*, vol. 12 (March 1974), 13-26.

70. John Picard Stein, "The Monetary Appreciation of Paintings," 1021-1035.

71. William J. Baumol, "Unnatural Value."

72. Bruno Frey and Werner W. Pommerehne, "Art Investment: An Empirical Inquiry," in *Southern Economic Journal*, vol. 56 (October 1989), 396-407.

73. See: William N. Goetzmann, "Accounting for Taste"; William N. Goetzmann, "How Costly is the Fall from Fashion"; James E. Pesando, "Art as Investment"; Jiangping Mei and Michael Moses, "Art as an Investment and the Under Performance of Masterpieces"; Olivier Chanel, Louis-André Gerard-Varet and Victor A. Ginsburgh, "The Relevance of Hedonic Price Indices: The Case of Paintings," in *Journal of Cultural Economics*, 1996.

74. For a discussion of RSR model see: Goetzmann, "Accounting for Taste," 1371; Mei and Moses, "Art as an Investment and the Under Performance of Masterpieces," 7.

75. Bruno S. Frey and Reiner Eichenberger, "On the Rate of Return in the Art Market: Survey and Evaluation," in *European Economic Review*, vol. 39 (1995), 528-537.

76. As William Goetzmann comments, using exclusively auction records eliminates the possibility of inclusion in the various art price indices of big profits through buying the works of relatively unknown artists. For example, the *Art Prices Current for 1961-62* contains no sales records for Jackson Pollack and Mark Rothko. See: William N. Goetzmann, "How Costly is the Fall from Fashion?"

77. Bruno S. Frey and Reiner Eichenberger, "On the Rate of Return in the Art Market," 529.

78. As reported in: James E. Pesando, "Art as Investment," 1080.

79. For a discussion on transaction costs see: Bruno S. Frey and Reiner Eichenberger, "On the Rate of Return in the Art Market."

80. Jiangping Mei and Michael Moses, "Art as an Investment and the Under Performance of Masterpieces," 12.

81. It must be noted that both the Reitlinger (*The Economics of Taste*, 1961, 1963, 1971) and Mayer *(International Auction Records*, New York: Mayer & Archer Fields, 1971-1987) data sets contain a large number of French Impressionist paintings and it was this segment of the market that experienced the most dramatic price increases in the 1980s. Goetzmann also compiled data on a longer period (1716-1986), and when this is examined bond returns in the UK exceeded the return to art investment. See: William Goetzmann, "Accounting for Taste," 1374.

82. Ibid., 1371.

83. Ibid., 1370.

84. Jiangping Mei and Michael Moses, "Art as an Investment and the Under Performance of Masterpieces," 17.

85. Ibid. Pesando returns study on modern prints (1993) also found that masterpieces underperformed their respective art market indices. Also see: James E. Pesando, "Art as Investment."

86. See: William Goetzmann, "How Costly is the Fall from Fashion?" As pointed out by Goetzmann, his finding accord well with the analysis of Ginsburgh and Jeanfils. Also see: Victor A. Ginsburgh and Philippe Jeanfils, "Long-Term Co-Movements in International Markets for Paintings."

87. Jiangping Mei and Michael Moses, "Art as an Investment and the Under Performance of Masterpieces," 19.

88. John M. Montias found that copies made up a significant portion of art collections in comparison to originals in seventeenth-century Netherlands – 66 percent for landscapes and 80 percent for still lifes. See: John M. Montias, "Quantitative Methods in the Analysis of 17th Century Dutch Inventories," in *Economics of the Arts: Selected Essays*, 1-26. For an analysis of the price ratio of originals to copies in seventeenth century Netherlands see: Neil De Marchi and Hans J. Van Miegroet, "Pricing Invention: "Originals," "Copies," and their relative Value in Seventeenth Century Netherlandish Art Markets," in *Economics of the Arts: Selected Essays*, 27-70.

89. William D. Grampp, *Pricing the Priceless*, 21.

90. Ibid., 136.

91. Ibid., 66-67.

92. As quoted in: Michael V. White, "Obscure Objects of Desire?" 61. Also see: David Ricardo, *On the Principles of Political Economy and Taxation*, 1: 89, 263.

93. William J. Baumol, "Unnatural Price," 10.

94. Michael V. White, "Obscure Objects of Desire?" 59.

95. Ibid.

96. David Ricardo, *On the Principles of Political Economy and Taxation*, 1: 194, 240, 249, 250. Also, as quoted and argued in: Michael V. White, "Obscure Objects of Desire?" 60-61.

97. David Ricardo, *On the Principles of Political Economy and Taxation*, 1: 383-85. Also as quoted in: Michael V. White, "Obscure Objects of Desire?" 60.

98. W. Stanley Jevons, *The Principles of Economics*, 149-50. Also as quoted in: Michael V. White, "Obscure Objects of Desire?" 72.

99. Alfred Marshall and May Paley Marshall, *The Economics of Industry* (London: Macmillan, 1879), 92-93. Also as quoted in: Michael V. White, "Obscure Objects of Desire?" 77-78.

100. Alfred Marshall, *The Principles of Economics*, ed. by Claude William Guillebaud, 1: 332. Also as quoted in: Michael V. White, "Obscure Objects of Desire?" 79.

Postscript

1. Both opening quotes are from Oscar Wilde. The first is from the "Preface" to *The Picture of Dorian Gray* and second is a remark from Chapter four spoken by the character Lord Henry Wotton. See: Oscar Wilde, *The Picture of Dorian Gray*, with afterword by Peter Harness, Collectors' Library (London: CRW Publishing Limited (1890), 2003), 8 and 63.

2. Michael Harrington, *The Politics at God's Funeral: The Spiritual Crisis of Western Civilization* (New York: Penguin Books (1983), 1985), 108-128.

3. Ibid, 126.

4. Ibid.. Both quotes can be found in Harrington's book *The Politics at God's Funeral.* The complete citation for Hirsch, and the quote, is: Fred Hirsch, *Social Limits to Growth* (Cambridge: Cambridge University Press, 1976), 132.

5. Marshall Berman, *All That is Solid Melts into Air*, 17.

6. See: W. van Reijen and D. Veerman, "An Interview with Jean-François Lyotard," in *Theory, Culture & Society*, vol. 5 (June 1988), 277; and, David F. Rucco, "Postmodernism and economics," In *Journal of Post Keynesian Economics*, vol. 13, no. 4 (summer 1991), 495. The full quote is: "I have said and will say again that "post-modernism" signifies not the end of modernism, but another relation to modernism."

7. George Steiner, *Bluebeard's Castle*, 58.

8. As Michael Harrington discusses in the first few pages of his book, *The Politics at God's Funeral*, it was Pascal, "a pious scientific genius who first announced the conflict between faith and science" – that is, that with "the discovery of an infinite universe, we could no longer conceive of a heavens and "God could no longer speak in the space of rational science." Kant, through his metaphysics, which asserted the finite nature of our minds, maintained that the existing of God, an essentially non-empirical being, could not be rationally knowable – an absolute was a matter of faith not of proof. Hegel, with his absolute spirit without qualities, also seemed to admit to the demise of a Christian God. See: Michael Harrington, *The Politics at God's Funeral*, 1-2. Also, as cited in Harrington, see: Lucien Goldmann, *Le Dieu caché* (Paris: Gallimard, 1955), 45.

9. Susan Sontag, "On Style," in *Against Interpretation and Other Essays* (New York: Farrar, Straus & Giroux, 1961), 28.

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