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INTERNATIONAL TRADE IN ART: ATTITUDES AND BEHAVIOUR

by

BRUNO S. FREY and WERNER W. POMMEREHNE *

I. THE CONCERN ABOUT LOSING ART TREASURES

Since the foundation of the Getty Museum rising concern has been voiced among European art lovers that the old continent will be further plundered of its art treasures by the American financial power. These apprehensions are not completely unfounded. The J. Paul Getty Trust as a 'private operating foundation' is legally required to spend 4 $\frac{1}{4}$ % of its endowment in three out of four years on its operating activities. On December 31, 1984 its endowment amounted to 2.3 billion dollars which means that roughly 100,000,000 dollars is spent per year. Moreover, the Museum's focus is on European art before 1900 (J. Paul Getty Trust, *Annual Review*, 1981-85, p. 40). While the Trust need not spend all the 100 million dollars per year on the purchase of classical European art, the sum is so huge that a major outflow of European art treasures can well be expected.

The international trade in art is not a new phenomenon but has existed since the very beginning of art. Neither is the sale of European art to America new. For at least a century now, rich Americans have bought European art for their private collections, which have finally found their way into museums such as the Metropolitan Museum of Art or the Frick Collection. This movement of art has been accompanied by persistent complaints, especially in England and Italy, that the national patrimony is being

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depleted by the export of art treasures (see Bator, 1982, p. 293). A well known writer on art (Denys Sutton, editor of *Apollo*, June 1983) considers the export of art from Britain to America to have reached such an alarming degree that it required a summit conference of President Reagan and Prime Minister Thatcher.

The international trade in art is also of great and mounting importance in other areas. Much art has been transported from countries of the Third World to Western countries. Rome and Paris would look different without the obelisks from ancient Egypt. More recently, pre-Columbian art treasures from Latin America, in particular Mayan sculptures, have been exported to America and Europe leading to the comment of one expert: "Not since the sixteenth century has Latin America been so ruthlessly plundered" (Coggins, 1969, p. 94). There has also been a sharp growth of interest in the ethnographic art from Africa and Oceania, and perhaps the greatest increase in art export has happened in the Asian countries: India, Thailand and Cambodia.

Part of this export of art is without compensation. During wars, men such as Napoleon and Göring have amassed art treasures in the occupied territories in the name of national glory. Today, illicit trade in stolen art presents a major problem. While many agree that a very large amount of art is illegally exported, "nobody has even an approximate idea of what quantities and values are involved" (Bator, 1982, p. 289)¹.

This paper analyses the concern about international trade in art from the point of view of economics. Part II presents the market (or price system) point of view. While this approach is of much use for many purposes it overlooks essential aspects of the international movement of art. The following parts endeavour to overcome these weaknesses by focussing on these neglected aspects, drawing on the Economic Theory of Politics including results from experimental psychology. Part III is devoted to the level of individual actions considering the endowment and the commercialization effects. Part IV deals with the level of organizations, presenting a behavioural analysis of institutional decision makers in museums, government and the professionalized art world as well as of groups of individuals. This part also deals with the interactions between various institutions in this area. Section V draws some conclusions.

¹ Bator's contribution provides an excellent survey of the facts known, the problems involved, and measures taken from the point of view of a lawyer.

II. MARKET ANALYSIS

1. Allocation

In the pure price system market transactions take place by voluntary consent. Both sellers and buyers profit. Trade is mutually beneficial or Pareto-optimal. This applies to any good or service traded, and thus is true also for international trade in art.

The trade in art has some special features which distinguish it from some other markets². While such specific properties undoubtedly exist in the case of art objects, they do not change the basic conclusion from market analysis that the voluntary trade in art is Pareto-optimal.

Nevertheless, trade in art and in particular the export of art by art dealers to foreign countries is condemned. Thus Ian Finlay, a British museologist, states that 'the auction houses of this country destroy our real wealth by facilitating the export of art' (quoted by Grampp, 1985, p. 2). Everybody concerned knows of course that this export of art is paid for handsomely. But perhaps he means that less is paid than for alternative investments. The art scene and the general public pays indeed considerable attention to the profitability of investments in art. There seems to be a widespread belief (nurtured especially by US banks interested in this type of business) that the rate of return in art investments is very high, certainly exceeding that of gold and bonds.

So far, there are only a few serious studies available that have analysed this proposition for the case of paintings. The necessary information for picture prices is only available for auctions. This limitation is not very serious because the prices asked and paid elsewhere are strongly influenced by auction prices. Besides the average rate of return risk must be accounted for. The studies existing focus on the risk attached to price variations disregarding the risks of having the pictures stolen, mutilated or destroyed.

In his analysis of the development of the prices of paintings auctioned in the US and Great Britain in the period 1946-68 (deceased painters only) John Stein (1977) calculates a nominal rate of return of 10½% per year. This is lower than the rate of return of investment in shares or bonds which amounted to 14½% per year. Moreover, pictures showed a clearly stronger variation in prices than did the monetary assets.

A number of economists used the price series for the pictures "... of

² A fascinating analysis of price formation in the art market is provided by BAUMOL (1986).

the best known painters in the world" by Gerald Reitlinger (1961, 1970) covering four centuries. Robert Anderson (1974) looked at 1730 changes in property occurring between 1635-1970. The average nominal rate of return amounted to 3.3% per year and was therewith only half as large as the return in stocks. The variability of returns was again much higher in the case of pictures than in stocks. William Baumol (1986) considered 640 transactions between 1652 and 1961 listed in Reitlinger. He calculates a *real* rate of return of art investment of 0.6% per year. In a recent study expanding the period considered up to the 'eighties (nearly 2000 transactions), we computed a real rate of return of 0.8% per year (Pommerehne and Frey, 1987). The corresponding real rate of return in safe government securities is 2 $\frac{1}{2}$ %. An investor in a representative collection of paintings thus would have suffered an opportunity loss of about 2% per year³. According to these studies, too, the risk involved in price changes is much higher for pictures than for government securities.

The four studies come to the same conclusion: An investment in art has a lower rate of return than an investment in comparable monetary assets, and moreover faces a higher risk. It is *not* a *financially* profitable investment. Provided these findings hold also for the future, Europeans could let Americans buy European art, invest the money in monetary assets, and buy (if they want) the European art back at a later date, leaving them a (monetary) profit. This being so from the European point of view, there is little to be said against exporting art to America.

2. Market Failures

While voluntary trade is beneficial for both seller and buyer it need not be so for society as a whole due to external effects and monopoly elements. Are there such market failures in the case of international trade in art?

a) *Externalities*. — The additional demand for art caused by American museums and American art investors raises the price for European art. This price increase creates incentives for *stealing* art⁴. This activity does not decrease the efficiency of the market as such. Stealing involves simply a transfer of ownership and involves no resource cost; it is a distributional

³ There is the question, however, of whether the paintings auctioned are a representative sample of the overall stock of the production of the world's best known painters. Another problem relates to the appropriate price deflator to be applied; see Ch. MEYER (1979, pp. 120).

⁴ See K.E. MEYER (1973) and BATOR (1982) for excellent accounts.

act not disturbing Pareto-optimality. There are, however, three *indirect* allocation effects which can impair the efficiency of the price system in international trade in art:

(i) In the process of stealing, art objects are mutilated⁵. This may happen in museums, churches and palaces but often causes very serious damages when archeological sites are pillaged. In the case of pre-Columbian art

... the monuments involved are enormous, thieves cannot remove them without mutilation. The large intricately carved 'stelae', some of them as tall as forty feet and weighing five tons, must be 'thinned' – that is, sawed, hacked, split apart with crowbars, or simply smashed into moveable pieces – before they are ready for the art market (Bator, 1982, p. 278).

(ii) More resources for protective measures are used due to the higher risk of theft which reduces art lovers' net utility in two respects. The museums and especially the original locations of art (churches, castles and palaces) are less accessible; the opening hours are reduced and the art treasures are exhibited in a way which makes viewing them more difficult. Art lovers are secondly burdened (to a certain extent) by the monetary cost of protection measures (more guards, technical devices, and increased insurance) which are reflected in higher entrance fees and higher taxes⁶.

(iii) A price rise in art may lead to yet another negative externality. The incentive to produce forgeries and fakes increases, which raises uncertainty in the art market. Transaction costs rise because more effort and money has to be invested in order to remain at the same level of certainty. From a somewhat more detached view, however, it may be argued that there is no real difference between copies and originals of works of art, and that the small differences that may exist do not matter from the aesthetic and educational point of view (see, for example, Banfield, 1984, and earlier Malraux, 1947; and for the educational aspect Smolensky, 1985). At the present state of technology, many art objects (including paintings) can be imitated in such a perfect way that nobody can discover any difference from

⁵ In some cases, however, the art objects are better preserved when they are stolen from the original sites and incorporated in a well organized private or public collection. An example are the Elgin Marbles – though they have not exactly been stolen from the Greeks but rather sold by the Turks – which would almost certainly be in a much worse state had they remained in Greece.

⁶ For the economics of fine art insurance see LAWRENCE and STUMM (1985).

In the case of public museums the damaging effect may be even more indirect. As entrance fees are kept fixed (or remain zero) the museum directorate's funds available for other purposes such as restoration, cataloguing or purchases is reduced.

the original (except when highly technological equipment is used) — not even the artist who created it in the first place⁷. If indeed copies cannot be distinguished from originals it is difficult to see — so it is argued — what utility loss should be suffered by art lovers from imitations. According to this view the search effort expended by art lovers and art investors to find the original should not be counted as cost but rather as part of pleasure.

In total, the price increase caused by the rise in American demand for art leading to more theft is responsible for some, but possibly rather *minor* negative external effects (partly compensated for by the positive external effect of better preservation). Exactly the same effects would occur if art prices rose due to increased European demand. It must then be concluded that there is little reason to assume that the international market in art is inefficient due to externalities produced.

b) *Monopolistic elements.* — In general, a market loses its Pareto-optimal properties when either supply or demand is monopolistic. Art historians consider (rightly) each object to be ‘unique’. There is only one Mona Lisa (as exhibited in the Louvre). Even disregarding copies, however, from the economic point of view substitutability exists in the sense that the cross elasticity of demand usually is not zero. Accordingly, there are many suppliers in the market, as evidenced by the lively activities of private art dealers.

Neither is there a monopoly in demand. Occasionally the Getty museum is considered a monopsonist due to its huge purchase funds. It may indeed sometimes be the dominant demander, but there are many others, such as the ‘Yuppies’ in America, who have started to invest in art and who are well informed and efficient. It has to be concluded that while the international market is not perfect, it seems to function at least as well as many other markets, and that Pareto-optimality is unlikely to be seriously hampered.

3. Is Pareto-Optimality Relevant?

The market economists’ concern with efficiency may be misplaced in

⁷ The best known example of a (nearly) perfect forger is Henri van Meegeren. He sold eight pictures claimed to be by Vermeer and de Hoch for a grand total of \$ 2,289,000. His forgeries would probably still be unrevealed were it not for the fact that he was called into court on a charge of selling national treasures, namely great Dutch Old Master paintings, to an enemy country, Germany. His last forgery ‘Christ and the Adulteress’ was bought by German Reichsmarschall Göring for almost half a million dollars (see RUSH, 1961, p. 338, and for many further cases, chapter XXI).

the context of the international market in art. The problem may be purely *distributional*. The cause for the anxiety about the export of art is the change in ownership, and not the resource costs involved.

Two distributional aspects should be distinguished:

(a) the locational (and therewith national and intercontinental) distribution; and

(b) the distribution of the works of art between closed (mostly private) and open collections which may be visited by the public.

Considering the purchase of art from European sellers by American buyers four distributional cases arise:

		American buyer	
		collection	
		closed (private)	open (public)
European seller	collection	closed (private)	(1)
		open (public)	(3)
			(2)
			(4)

Today, there are few, if any, sales from public collections in Europe to America⁸, except when a private collection open to the public is concerned. Cases (3) and (4) are thus of limited current relevance. When an art object changes from a closed European in a closed American collection (case 1) we have the pure case of a locational redistribution. When the same work of art finds its way into an open American collection (case 2) there are two redistributions at the same time. If a collection open to the public is preferred to a closed one, the change in ownership may from the European point of view have two opposite effects: Utility increases because art lovers have access to the art object, but decreases because this happens in America instead of in Europe.

Distribution is without doubt of central importance in the international trade in art. But the effects are not as one-sided as they appear at first sight. The problem for a market economist – whose main or exclusive concern is with efficiency – is that he has little to say about distribution from the analytical point of view.

⁸ In contrast to the time when the 'entartete Kunst' was thrown on the market by the Nazis.

Our discussion has come to the conclusion that allocative efficiency is little impaired in the international market in art. From the point of view of *world* potential Pareto-optimality the concern and misgivings about the export of art across nations and continents is ill-founded. Government interventions in the form of export limitations and prohibitions cannot be justified.

This orthodox economic view is useful for some purposes but it neglects important and essential features of art. These aspects are dealt with in the following sections.

III. INDIVIDUALS AND INTERNATIONAL TRADE IN ART

1. *Endowment Effect*

Mr. X bought a bottle of good red wine for Fr. 20.- in 1985. Recently his wine merchant offered to buy the bottle back for Fr. 80.-. Mr. X refused although he has never paid more than Fr. 35.- for a bottle of wine.

This is an example of the endowment effect which has been well established in laboratory experiments⁹. The endowment effect cannot be explained by traditional economic concepts; it exists even when the income effect and the transaction costs are accounted for. Neither is it identical with option, existence, bequest and prestige effects¹⁰.

The endowment effect establishes a sharp difference between buying and selling prices. It suggests that one should distinguish between out of pocket cost and opportunity cost (Thaler 1980). This contrasts with the orthodox economists' view that *all* cost should be looked at as opportunity cost which is equal to out of pocket cost. According to the endowment effect, the same object may have two prices (or marginal evaluations): A higher one, when the object is in one's endowment, and a lower one, when the object is owned by someone else.

The endowment effect is of immediate relevance for art: The owner is not prepared to willingly part from an art object in his possession for

⁹ KAHNEMAN and TVERSKY (1979); THALER (1980, pp. 43-47); KNETSCH (1985) ; KNETSCH and SINDEN (1984) for further elaborations.

¹⁰ The latter effects increase the valuation beyond what it would be for art's sake but it does not lead to a difference between buying and selling price.

The prestige effect in the form of national feeling is empirically studied and confirmed for the fine arts by SINGER (1985).

price Z , even though he would not buy the object for price Z on the market. This difference in the selling and buying prices from the point of view of an individual has further connotations. Often, an owner of an art treasure sells it in order to meet tax payments or because of other pressing needs (e.g. in the case of the aristocracy, to undertake urgent repairs of the stately home). For a market economist this is simply an instance of mutually beneficial trade – because otherwise it would not be undertaken. Things look different when the endowment effect is taken into account: The owner feels subjectively 'forced' to sell or would at least not sell 'voluntarily' for the price offered. The terms 'forced' and 'voluntary' are in this context used differently than in traditional economic theory; it expresses the feeling the sellers subjectively have. Though the transaction constitutes 'a voluntary mutually beneficial trade' (in the traditional sense) because to sell the art object at the given price is preferable to keeping it, this transaction nevertheless dissatisfies the sellers. The *marginal* evaluation of the benefits and costs leads the owners to sell, but the transaction results in a decrease of the owners' *total* utility level. They therefore attempt to remedy it by resorting to action in a different decision making mechanism, especially by undertaking political action. The endowment effect makes it possible that owners of pieces of art are prepared to sell them on the international market but at the same time are ready to support political action envisaging export restrictions of such art.

In face of the endowment effect, the possible deal between Europeans and Americans envisaged in the previous section is no longer feasible. The European sellers are dissatisfied when they are 'forced' to sell art to America, but they know at the same time that they will not be prepared to buy it back at the then current price (even if the price increase is smaller than the return on the selling value invested).

The endowment effect (which has experimentally been established for the level of individuals) may reflect itself at the *aggregate level*. It shows in the form of 'patrimoine national', an idea which plays a significant role in the discussions among art experts and art lovers. Even a lawyer such as Bator (1982, p. 303) writes as a matter of course about 'art as a part of national wealth or capital' but economists tend to ridicule such ideas (e.g. Grampp, 1985, p. 2).

An art treasure belonging to the patrimoine national of a particular country¹¹ is not sold for a particular price outside the country but it

¹¹ To what nation an art object belongs is decided by history, and may be open to dispute. The Elgin Marbles are (according to BATOR 1982, p. 303) part of *England's* national patrimony.

would not be bought at that price. If circumstances 'force' an owner to nevertheless sell his piece of art, the transaction is resented by himself and others, and political action is likely to arise with the goal of preventing such utility losses in the future.

There is some suggestive evidence that the endowment effect does indeed exist at the aggregate level. Fund raising drives among the public (individuals and firms) tend to be undertaken when an art object threatens to be sold outside the country, i.e. when a loss of the endorsement is to be prevented. Such fund raising drives are much less undertaken in order to buy *some* art object deemed worthwhile by art experts¹². The reason surely is that individuals and firms can be motivated to donate sufficient amounts only if they consider the art treasure concerned to belong to their national endowment.

The aggregate endowment effect may not only apply at the national but also at the city level. When in 1967 a wealthy owner of a collection of modern paintings loaned to the Kunstmuseum in Basle was 'forced' to sell two Picasso paintings in order to compensate for business losses, a sufficient sum of money was approved of in a popular referendum to prevent this loss of endowment to the City of Basle (see Pommerehne and Schneider, 1985).

2. Commercialization Effect

People abhor using the price system under many circumstances – a fact not likely to please market economists but nevertheless of practical importance (see Frey 1986). The notion that buying and selling a good or service on a market destroys welfare has been argued by Hirsch (1977) and others (e.g. by Kelman, 1981 for the case of environmental protection). Informal exchange involving mutual obligations is seen as a preferable alternative to the market system with its need for attaching explicit monetary prices to goods and services.

The arts are one of the main areas where many people reject the use of the price system. This applies in particular to dedicated art lovers and art critics. While the international art market may function efficiently and rela-

¹² In 1984 a fund raising drive among public authorities and large private banks has made it possible for German museums to buy the 'Evangeliar Heinrichs des Löwen', produced in 1173-75, for the sum of DM 32,387,000 on the international art market (a Sotheby auction). Though in this case the action was not to prevent a loss but to acquire a piece, it is generally acknowledged that this Evangeliar belongs to Germany's patrimoine national, because it was originally presented to the Dome of Braunschweig.

tive quantities may systematically react to changes in relative prices in the way predicted by economic theory, people resent the use of the market. The market is considered a *public bad* in the case of art, reducing welfare¹³. Even those engaging in it may not like it and may resort to non-market action in order to restrict it. Similar to the case of the endowment effect, trade in art is *marginally* beneficial for sellers and buyers but the use of the whole institution leads to a decrease of *total* utility of all individuals.

The many laws existing in practically all nations of the world restricting international *trade* in art (see Keen 1971) may be attributed to this public bad characteristic of the market. No such restrictions exist with respect to international *lending* of art treasures, sometimes even on a permanent basis. On the contrary, the organization of 'block buster' exhibitions with art objects from foreign lands (such as the recent Vatican and Liechtenstein exhibitions in the United States) has become a major activity of the most prominent museums of the world.

To sum up, the endowment and the commercialization effects may be responsible for the effort to push back the use of the international market in art. Quite another matter is whether these restrictions have been successful. Most of them have not (see Bator 1982, p. 310 et seq. for an extensive account). Embargos have proved to be ineffective; they are administratively unenforceable and irresistible pressures are created to circumvent them via grey and black markets. England's selective export controls which have gained wide publicity only prevent art exports temporarily unless a museum or collection offers to buy the art object at its market price. The law thus gives time to launch a fund raising drive, with some success. Some major works such as El Greco's "Dream of Philip II", Rubens' "The Holy Family" and Titian's "The Death of Acton" have in this way been secured for England (though neither the painter nor the motive of the painting can be said to be English).

IV. INSTITUTIONS AND INTERNATIONAL TRADE IN ART

The discussion so far has looked at the individual level and has analysed in what way psychological factors such as the commercialization and the endowment effects influence behaviour. In this section, the emphasis lies on the aggregate level: The activities of *organizations* (the museums, the

¹³ It should be noted that the public bad is not due to any negative external effects, at least as ordinarily defined and measured.

government, private art firms) and of *groups* of individuals (the art dealers and private collectors of art) are studied in the context of given institutional (and therewith historical) conditions, drawing on previous research (Frey and Pommerehne, 1980; Clarkson, 1981). In the first subsection the behaviour of the most important actors with respect to the international trade in art is sketched, applying the economic model of behaviour (see Stigler and Becker, 1977; Frey and Foppa, 1986). In the second subsection some of the main consequences of the interaction between these institutional decision-makers are discussed.

1. The Main Actors

a) *Museums of art.* — Art museums play a major role in the international trade of art. They *may* not only buy works of art from foreign countries but *may* also sell abroad. They moreover have a strong impact in how far the international trade in this area is regulated or even prohibited. Through the prestige, experience, and information over which they command they may formally and informally influence the behaviour of the other decision makers in this area.

This discussion concentrates on (public) museums in the European institutional context. Public museums of art are part of the government sector. They are thus faced with two major *restrictions* on their behaviour:

(i) The museum administrators are required to follow the general rules and procedures in the public sector. In particular, they are not allowed to appropriate (any part of) the fiscal residual (the difference between revenues and cost) for the purpose of 'their' museum. If they run a surplus, it has to be delivered to the general public purse. A deficit, on the other hand, is covered by government subsidies. It follows that the museum administrators do not have any incentive to achieve a surplus. In particular, they have no interest in selling works of art in their possession to engage in profitable speculation in art¹⁴.

(ii) The museums' budget is provided for by the government. The yearly operating deficit is projected and the resulting subsidy is demanded by the museum administrators. The actual subsidy provided is the result of negotiations between the ministries concerned (ministry of culture and fi-

¹⁴ The incentives for both activities are somewhat different for public museums in the United States, see e.g. O'HARE and FELD (1975), MONTIAS (1973). It need not be stressed that the underlying institutional conditions and therewith behaviour differ strongly for (purely) private museums.

nance) and the museum directorate. In this bargaining process, the museum administrators use their advantage of information with respect to the museums' artistic activities, and introduce their particular 'artistic' point of view.

The acquisition funds for (costly) additional works of art are not usually decided in conjunction with the current subsidy. The museum directorate must come forward with a specific demand to buy a particular work of art which catches the imagination of the top bureaucrats and politicians who have to grant the (large) sums required. The museum directorate has a good chance to get these sums from the government when they invoke the endowment effect, i.e. when a particular painting (or other art object) is threatened to be sold abroad. The endowment effect with respect to art treasures existing at the individual level is thus strategically used by the museum administrators from time to time to get *additional* funds from the public purse. In the same way the endowment effect serves well to tap private sources of finance in the form of donations by individuals and private firms. In principle, a work of art may be desired by a museum either because it rounds off a collection by closing gaps, or because it broadens it. The museum directorate may strategically bring forth that argument which suits the purpose of getting additional funds best in a particular circumstance.

The administrators of a public museum moreover have an interest in not subjecting the works of art in their possession to a monetary evaluation. If this were done they would risk that the political decision makers would not be ready to come up with the sums required to buy a particular work of art arguing that they could sell another art object in their possession, in particular if not exhibited at all¹⁵.

Being part of the general public administration, it is quite out of the question that the museum directorate engages willfully in art speculation. This would not be in conformity with the principles of sound administration. As has already been pointed out, the museum directorate has no interest in doing so because the profits cannot be appropriated. Moreover, it would introduce an unnecessary monetary evalution into the 'artistic' world of the museum which invites more stringent monetary control from outside the museum.

¹⁵ When in the United States an effort was made to include art treasures in measured national wealth, the museum directors were only ready to give up their opposition under the condition that '... the need for public support of the cultural and educational activities of museums must not be deemphasized by the publication of the value of museum collections' (N.B.E.R. 1964, pp. 788).

Within the possibility space defined by these administrative and financial restrictions, the museum directorate may pursue its own goal – provided the possibility set is not empty. The museum directors derive utility by enjoying a high prestige among their colleagues and other members of the art world (art critics and journalists, museologists, art collectors and dealers, art lovers). This art world is to a large extent international, and the directors of the major museums therefore have an incentive to play an international role. This involves being present in the international art market when an art object in any way connected to the particular museum is offered for sale.

The top museum administrators are confronted with a dilemma. On the one hand it is in their interest to engage as little as possible in the monetary aspects of the (international) trade in art, on the other hand they are interested in becoming active on that market when the need arises. This dilemma is solved by delegating the commercial aspects to a considerable extent to professional art dealers. This allows the museum directorate to maintain the desired distance from the monetary aspects of art.

b) *Government.* – The politicians in a democracy are restricted by the need to be elected by the popular electorate. In general, artistic affairs are of quite limited interest to the bulk of the voters. The government politicians are therefore free to undertake a museum policy largely to their own liking as long as the financial requirements are not too taxing. The situation may be quite different when a (more or less important) work of art belonging to the 'patrimoine national' threatens to be lost to a foreign country or could be bought on the international market. Due to the endowment effect, the individual voter's interest in a particular item of art may rapidly rise. The politicians in power may increase their popularity with the electorate by presenting themselves as saviours of the 'national heritage', especially in countries with strong national feelings (and in what country is this absent?)¹⁶. To employ the emotions already existing in the population, the government not rarely argues as if a work of art not secured for a museum of one's own country would be a 'loss to mankind'. In reality, the only thing that happens in most cases is that the work is exhibited in a foreign instead of a national museum.

An important additional reason why governments engage themselves so strongly in maintaining and enlarging the 'patrimoine national' in art is so strongly in maintaining and enlarging the 'patrimoine national' in art is the pressure exerted by the local business community in which the work of

¹⁶ A recent example of such behaviour provides the Spanish government's decision to buy the (not really first rate) 'Marquesa de Santa Cruz' by Goya for \$ 6 million from an Englishman (Lord Wimborne) to place it in the Prado.

art is to be exhibited. They can derive direct monetary benefits from having a museum attracting many foreign visitors and a qualified work force, while the bill is paid by the local, or more usually the national community as a whole¹⁷.

The government is thus interested in the functioning of an international market in art as far as *buying* art is concerned. However, they would prefer that no free market existed as far as *selling* is concerned. They therefore tend to severely regulate or even prohibit the export of art.

Another constraint determining the government's possibility space is the budget restriction. The expenditures used to buy art on the international market are compared to the benefits other types of expenditures confer to the government. In order not to burden the budget by explicit outlays for art, politicians prefer less visible costs by granting tax expenditures. When an expensive work of art is bought to avoid its export or to bring it 'home', the government's contribution is often made conditional on individuals and firms also contributing an appropriate share. Due to the fact that such private donations are tax deductible, it is still the taxpayers who have to foot the bill.

Within the possibilities determined by the various restrictions mentioned, the politicians in power may use art to further their own goals. Art is a suitable vehicle for creating national prestige and glory and is therefore used by some politicians trying to secure a place in history. While this has often been achieved by illicit forms of the trade in art (expropriation) under peaceful conditions this may be achieved by securing internationally renowned art objects.

c) *Private art enterprises.* – Private galleries, art dealers and auction houses are those actors in the art world who have the clearest interest in maintaining the international market in art. A considerable portion of the major houses' total business takes place across borders. A closing down of the international art market would have strongly adverse consequences for many of them. They are already severely restricted in their commercial enterprises by the export restrictions imposed by national governments, and they have an incentive to circumvent them as far as possible¹⁸. Their

¹⁷ This also applies to theatres and operas in which the local business people have a strong economic interest, see e.g. for the Austrian *Bundestheater* ABELE and BAUER (1984).

¹⁸ There is an endogenous limit to the incentive for 'cheating' because an art object immediately loses much of its value if the property rights are not clearly established. Thus acquiring a piece of art which has been exported under doubtful or even illegal circumstances, or which may have been stolen is not necessarily lucrative because the potential buyers are

interest groups lobby politically against such restrictions. This activity is, however, done in a toned down manner because these art dealers and auction houses are closely connected with the museums whose directors may not be opposed to restricting and controlling the international market. So, if a country claims that a work of art has illegally been exported and put up for sale, the international art dealer or auction house involved is interested in finding a mutually satisfactory compromise. To do otherwise would discourage the museums as customers, and would create conflicts with the public administration.

d) *Private collectors.* — Art may be collected by both individuals and firms which do it for image purposes. (But even in this case, there is a private collector in the background).

Private art collectors do not form an organized pressure group but are rather individuals acting in isolation. Their political influence is quite limited so that their interest in a well functioning international market for both buying and selling art is of little consequence.

e) *General public.* — The population at large is not generally concerned about art, and in particular about how the international market in art functions. Interest may suddenly rise when a prominent piece of art is threatened to be lost from the endowment. The individuals can then be motivated to make a contribution to this public good. The situation is similar to the one obtaining in the wake of a catastrophe when people behave in an altruistic way (see De Alessi 1975).

Some subsections of the population have a more continuous interest in the arts, mainly devoted art lovers. While they are in principle for an open market in the international trade in art they are most strongly subject to the endowment effect. They will use their political influence (which is not negligible because art lovers tend to belong to the upper eschelons of society) to establish export restrictions.

2. *Outcomes*

The interaction of the various actors within given institutional conditions leads to specific outcomes with respect to the international trade in art. Five outcomes (which may generate to empirically testable propositions) are discussed in the following.

prepared to pay only a lower price. Well known art houses may also fear the loss of credibility involved.

(a) Art has a strong international aspect, in particular first rate art does not know any national boundaries. Correspondingly, the decision-makers in the major museums and in the art world in general have a strong international orientation. International *exchange* in the area of art is favoured. There are two ways in which this goal could in principle be achieved: (i) by using the international *market* in trade, or (ii) by employing *non-market* means for international exchange.

(b) The international *market* in art is a public good for the relevant decision makers. It is vaguely supported but no actor is ready to incur high cost in order to defend its freedom. At the same time the general aversion to 'commercialising' art existing in the public (even among most economists) also extends to the international market which diminishes support even more.

(c) Various decision-makers have a strong interest that specific objects of art are not subjected to a monetary evaluation. This applies particularly to museums acting within the institutional conditions of public administration. As a consequence, works of art in the property of museums are not sold. For the same reason, private collectors are discouraged to sell abroad. This restricts the international market in art drastically.

(d) The resistance against using the international market in art is characterized by marked cycles. High points are reached when a work of art cherished by the 'art community' threatens to be lost to the country. In that case the endowment effect existing in the general public is mobilized to prevent the export of comparable works of art in the future by lobbying for export restrictions.

(e) For all decision-makers (except, to some extent, private art enterprises) *non-market* means for the international exchange of art are used to a considerable extent compared to the market. Non-market means may take the form of loans to foreign museums as well as the participation in international exhibitions. With this kind of international 'trade' there is no need to resort to a monetary evaluation of the works of art exchanged thus also conforming to the aversion against commercialization. At the same time the fact that the art objects are loaned only, and not sold means that they remain among the country's assets so that the endowment effect is cared for. This obviously applies to temporary loans. It may be thought that this is not so for permanent loans because the legal property right still existing is of no importance as the work of art conceded has left the country for good. Nevertheless, the *possibility* to ask the permanent loan back gives the illusion that the work is still part of the national art endowment.

V. CONCLUSIONS

According to an orthodox market analysis there is little reason to interfere in the international art market. There are few, if any, external effects and the monopoly element is not stronger than in many other markets. A major cause for concern, the mutilation and destruction of art treasures to enable their export, is more due to the existence of export restrictions and prohibitions than to the existence of an (official) international art market.

The orthodox market analysis disregards effects recently found in experimental psychology which directly relate to the international trade in art. The endowment effect leads individuals to be averse to the export of art objects. The commercialization effect works against a monetary evaluation of art in general, and therewith also to trading art in the international art market.

This paper looks at the interaction of individual behaviour in a given institutional setting. A major role is played by the administrators of (European) museums which are part of the public sector. It is argued that the commercialization and endowment effects with respect to art existing among the individuals in the population are used by the institutional actors in the art world for their purposes. A particularly well visible and important case is when an art treasure considered by the art world – in particular the museum administrators and art critics – to belong to the ‘patrimoine national’ threatens to be exported to a foreign country. A campaign is then mounted to raise additional funds which would otherwise not be forthcoming. This is done by strategically using the endowment effect in the general public.

The ‘psychological’ effects just mentioned are taking place on the individual level of behaviour. It would be mistaken to simply transfer them to aggregate behaviour because there may be forces induced by institutional conditions which work against them, washing out their aggregate effect¹⁹.

The interaction among the decision-makers results in *little* support coming forth for a free international art market. The interests are asymmetric: while everyone is interested in having the possibility to *buy* in that market, there is much opposition against *selling*. As a consequence, there is strong political activity demanding export restrictions, with the outcome that we observe in almost all countries of the world that ‘national’ art

¹⁹ This has not always sufficiently been taken into account in psychological economics as even Scitovsky's (1981) otherwise excellent analysis of the ‘desire for excitement’ shows.

(which is defined most extensively) may not be sold to foreign countries.

The international market in art is even more strongly curtailed by the fact that museum administrators find it against their interest to sell works of art from their endowment. This restricts the quantity of art offered in international markets drastically. In order to be present in the international art world — which increases their utility through the prestige gained — museum directors internationally exchange works of art in the form of temporary or permanent loans, thus evading the commercialization effect.

Economists (and others) suggesting a free international market in art as they cannot detect any strong market failures would have little chance to effect *current* policies restricting the market because of the strong interests working in the opposite direction.

The situation is different at the *constitutional* level (Brennan and Buchanan, 1985), or at the level of the social consensus (Frey, 1985). There may be a chance to open up the international art market by negotiations between countries at the *international level*, because each country has an interest in being able to *buy* on this market. However, it is difficult to reach a consensus because the distribution of the stock of art treasures is skewed, much of it being in European museums (though a considerable part never exhibited). The European museum community can only be motivated to favour an opening of the international art market if it is made clear that general export restrictions would also mean that they are not able to buy the (new) art produced in America and elsewhere. As the European art world is also interested in having access to this market it may be possible to establish an international treaty setting minimum conditions for maintaining the international art market functioning.

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IL COMMERCIO INTERNAZIONALE DI OPERE D'ARTE: TENDENZE E COMPORTAMENTI

Secondo l'analisi tradizionale del mercato, vi sono anche ragioni per interfare nel mercato internazionale delle opere d'arte. Vi sono pochi, se ve ne sono, effetti esterni e l'elemento monopolistico non è più forte che in molti altri mercati. Un importante problema, la mutilazione e distruzione di tesori artistici al

fine di renderne possibile il trasporto, è causato dalla esistenza di restrizioni e proibizioni all'esportazione più che dall'esistenza di un mercato internazionale ufficiale di opere d'arte.

L'analisi di mercato ortodossa trascura gli effetti recentemente scoperti dalla psicologia sperimentale che sono direttamente connessi al commercio internazionale delle opere d'arte. L'effetto *dotazione* induce ad essere avversi all'esportazione di oggetti d'arte. L'effetto *commercializzazione* opera contro una valutazione monetaria dell'arte in generale e quindi anche alla commercializzazione dell'arte sul piano internazionale.

In questo articolo si obietta che relativamente alle opere d'arte gli effetti di commercializzazione e dotazione che sono presenti presso i singoli individui vengono usati dagli operatori istituzionali nel mondo dell'arte (in Europa) ai loro propri fini. Un caso particolarmente evidente e significativo è quello che si verifica quando si ha il timore che venga esportato in un paese straniero un tesoro artistico appartenente secondo gli esperti (specialmente gli amministratori di musei pubblici e critici d'arte) al 'patrimonio nazionale'. Viene allora montata una campagna per raccogliere fondi che diversamente non si troverebbero. E questa è una strategia che usa l'effetto dotazione.

Il mercato internazionale di opere d'arte viene anche maggiormente ridotto dal fatto che gli amministratori di musei trovano contro il loro interesse la vendita di opere d'arte che fanno parte della loro dotazione. Questo limita drasticamente la quantità di oggetti d'arte sui mercati internazionali. Per essere presenti nel mondo internazionale dell'arte — cosa che aumenta l'utilità attraverso il prestigio che ne deriva — i direttori di musei scambiano internazionalmente opere d'arte sotto forma di prestiti temporanei o permanenti, evadendo così l'effetto di commercializzazione. La possibilità di domandare la restituzione del prestito permanente dà l'illusione che l'opera sia ancora parte del patrimonio nazionale.