

THE ECONOMICS OF ART IS DEFINITELY WORTHWILE

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Klamer's speech has resounded not only through the Low Countries but also across the Alpine heights. Bruno Frey, economist in Zürich, demonstrates the inconsistency and instability of the economic views widely held by the population of the art world, maintaining that these artists and experts can learn a great deal from economists. He claims that commercialization is a far smaller evil than Klamer believes. Swiss experience with popular referendums shows that art is not sullied by direct democracy.

It is a great pleasure to comment on Arjo Klamer's lively and unconventional inaugural lecture. I have been a long time admirer of his work and I am delighted that he is the first scholar to occupy a chair in the Economics of Art and Culture full-time.

I share much the same general outlook expressed by Arjo Klamer in his lecture; both of us want to go beyond traditional economics and want to explore new avenues. In particular, both of us want to combine economics and art by doing justice to both fields. For obvious reasons of time and space, Klamer has not fully exploited the insight which the economics of art may provide. I therefore welcome the opportunity to illustrate some fruitful contributions of economics to the arts. I want to state immediately that I am convinced that it is much more than Klamer makes his readers believe. When he states that '(...) economists' perspective is not very inspiring when applied to the world of arts' I do not concur - indeed I think the opposite is true. It is the meeting of the two completely different worlds which is inspiring, produces novel insights, and makes both sides think anew. Actually, Arjo Klamer's lecture is a case in point, so he contradicts himself.

My comment focuses on three issues addressed in the inaugural lecture: 1. the two different worlds of economics and art; I wish to demonstrate what the art world can learn from economists; 2. the relationship between artistic values and commercializa-

tion, which to my point of view are analyzed in a too narrow and somewhat biased way in Klamer's lecture; and 3. the tendency towards elitism in art at least implicit in Klamer's account which I wish to confront to a democratic view even going as far as favouring referenda on art.

Artists' world and economists' world

Klamer is quite correct when he identifies artists and economists living in two separate worlds. The art world in my understanding does not only consist of artists, but also of the large number of persons employed in the cultural sector such as directors, professionals and workers in theatres and museums, art gallery owners, but also art amateurs, i.e., persons who consume art. Most members of the art world are illiterate in economics, and not a small share of them actively reject any economic thinking because they consider it inimical to culture. For practical life they draw on vague economic ideas and notions which they remember from school or which they pick up from newspapers. Those literate in philosophy tend to resort to Marxist ideology simply because they have learnt little or nothing from an alternative current, the British moral philosophers such as Smith, Hume or Mill from whom economics has evolved. Yet many members of the art world are acutely aware of the importance of economic thinking, because their survival depends on it. While, for

instance, art historians learn nothing about economics as students (at least this holds for Swiss and German universities), they quickly realize the importance of the art market when they have a job in an auction house or gallery. Independent artists, such as painters, need to enter the art market to gain income, and professionals engaged in art organizations such as theatres and opera houses spend a considerable part of their time to lobby for money, and to administrate its spending.

The art world is thus torn between two opposing forces: the rejection of economic thinking, and the need to adjust to its demands. As a consequence, the views held by its members are unstable and often inconsistent and vary according to the occasion at hand. I want to illustrate the art world's position with three issues referring to the relationship between money and art (also touched by Klammer).

Investment in art

Many members of the art world are convinced that there cannot be any better investment than in art, and that especially 'good' art will always be highly profitable. On the other hand, often the same persons stress that one should buy art only for art's sake, and that one should never compare its financial returns with alternative assets. What is correct? Does art investment reap higher returns than, say, investments in financial assets such as government bonds?

Many members of the art world seem to think that high prices for art also guarantee high rates of return. Klammer's example of Van Gogh's *Portrait of Dr Gachet*, which was bought for 82.5 million US dollars in May 1990, to some extent supports this erroneous view. The seller of the picture may well have made a huge profit but what about the present owner? If he wants to sell the painting in May 1996, i.e., after holding it for six years, he would have to get something like 132.4 million US dollars to just break even, i.e., not to make a financial loss.² But is it likely that someone pays this enormous sum? And what is the prospect that an even much higher price can be fetched in order to reap such a high rate of return as is often claimed?

Even if someone were prepared to pay this enormous price for van Gogh's *Docteur Gachet*, this can certainly not be expected in general. Indeed, a study by the present author with Werner Pommerehne (1989), covering 1200 transactions of auctioned paintings over more than 350 years (1635 - 1987), revealed an average real rate of return of approximately 1,5 percent per year. This is lower than the less risky investment in government bonds, where an average return of something like 3 percent per year can be reached. Other authors have, with few exceptions for special periods (see the survey by Frey and Eichenberger 1995), also found that art is not a particularly good investment from the financial point of view. This result also applies for collectibles such as prints (Pesando 1993), Stradivari violins (Ross and Zondervan 1993), and even Mettlach beer steins (Kelly 1994). For an economist, this result is not surprising. In equilibrium, the total rate of return of assets (of similar risk) are equal (if they were not, people would invest more in the more profitable assets, driving down their return). As art objects are at least partly bought because they provide pleasure - they thus produce a psychic rate of return - their financial return must be lower than that on equivalent financial assets.

Price and value in art

Casual readers of Arjo Klammer's text might be led to believe that economists identify values with prices, or money, e.g., when he writes 'Paintings and performances are reduced to commodities, their values to prices'. This statement is only true at the margin, i.e., for a person who is indifferent whether he or she acquires an art object or not, or visits an art performance. For all 'earlier' (intramarginal) buyers, the object's or performance's value is higher than the price paid.

Art economists have used methods developed in environmental economics to assess values of art. Most prominent is the Contingent valuation Approach which uses carefully designed questions to measure how highly individuals evaluate our cultural heritage (for a museum, see Martin 1995, for a the-

atre see Bille Hansen 1995). Such studies regularly reveal that the total values attributed (it is called the 'aggregate willingness to pay') is considerably larger than the monetary revenues gained by entry prices. Most importantly, even persons who never visit such cultural institutions attribute value to them. They want them available for a possible future visit (option value); they find their existence is important (existence value); and they want them preserved for posterity (inheritance value).

Clearly, such studies measuring the willingness to pay for culture differ fundamentally from the 'impact studies' mentioned by Klammer; the latter only look at the commercial revenue generated. Many art economists are very critical of them exactly because they do not capture the intrinsic value contained in culture.

Income of artists

The art world has very divergent views on incomes gained by cultural activities. On the one hand, the idea of the 'poor artists as the only true artists' is deeply ingrained. The idea itself has been transformed into art, most prominently in Puccini's opera *La Bohème*, and in Spitzweg's painting *Der arme Poet*. At the same time, the art world is well aware, and cherishes, the extremely high incomes of top artists such as Picasso or Chagall (both left huge fortunes) in painting, Karajan or Pavarotti in music, and Bertold Brecht and Thomas Mann in literature. The same holds for the greatest artists of the past. To give just two examples (for many other examples, see Frey and Pommerehne 1989): Goethe derived high income from his writings (he was actually very skilful in getting money from his publishers) and Rembrandt was very well paid as a painter (but he had the bad luck of investing badly so that he lost his fortune). These examples suggest that it is at least not incompatible to be a good (or top) artist and to gain high income. I would go further: with few exceptions (which can be well explained) good artists are well paid, simply because the market is good in detecting capable practitioners. After all, the 'market' is not an abstract entity, but is composed to a

large extent of persons of the art world expressing their demand.

But what about Mozart? Don't we all remember the burial of a pauper in *Amadeus*? Research (see Baumol and Baumol 1994) has shown that Mozart had a most respectable income - it corresponds roughly to four times of what a high school teacher earns in Switzerland today (i.e. totally around 500.000 Swiss francs per year) - but that he was also a big spender. Neither did he leave Konstanze without any means; after his death she was able to live a reasonably comfortable life.

But what about Van Gogh and Gauguin? It is certainly true that they did hardly earn any money from their paintings, i.e., the market did not value their products at all. But neither did the art critics, and the art world in general, of that period! It is thus not a peculiarity of the market that these great artists could not sell their paintings, they just were not recognized in their time. Indeed, recognition via the market not rarely precedes recognition by art critics as many art historians and gallery owners have observed. In the case of impressionists and expressionists, they first experienced a demand in America (especially Monet), and only later the 'official' art critics followed suit. Indeed, the famous painters of this period such as Monet, Manet or Renoir lived quite well from their paintings. It was the bad fate of Van Gogh and Gauguin that they died too early and could not experience the monetary success of their art.

One must, of course, be very careful not to judge the income position of a particular artist with the income position of artists as a whole. One of the main problems is to define who an 'artist' is. Is someone an artist who now and then publishes a poem in the local newspaper, or who is educated as an actor but never gets a job? If such persons are counted as artists, unemployment is very high and incomes from artistic activities are low. If, however, one counts as artists persons who spend at least a limited number of hours in artistic activities, and if one includes income gained in closely related activities such as teaching at an art school³, the income

position of artists does not look as bleak as many members of the art world believe. A careful study for the United States (Filer 1986), for instance, revealed that taking into account objective income producing factors such as age, sex, race and above all years of education, the income of self-defined artists is only 5-10 percent lower than of corresponding persons in non-artistic occupations.

I have discussed these three relationships between art and economics to illustrate that the economics of culture can indeed contribute important insights of how art is produced, distributed and consumed.

Commercialism and art

Klamer develops an important thesis when he states: 'A commercial transaction devalues a good whose value is beyond measure', and he particularly applies this commercialization effect to the arts. It is, however, important to see that it is a special case of a more general relationship between intrinsic motivation or values and external intentions. 'Crowding theory', as it may be called (Frey 1992, 1994), is more general in two important respects:

a. Not only external interventions in the form of commercialization crowd out intrinsic motivation and values but also external interventions via regulations. This phenomenon is well known in art and has been often commented upon: good art tends to be driven out when it has to be produced under command. This first generalization is greatly important because it teaches us that direct governmental intervention in art may produce bad effects. The art world should be aware that it is hardly possible to have government support of culture without at the same time having rules and regulations constraining art. This first generalization also suggests that the by now traditional aversion of the art world to commercialization is one-sided, it should also be sceptical towards regulations.

b. The second generalization implied by crowding theory is equally important: commercialization does not only crowd out intrinsic values. Rather, it

fosters them (crowds them in) when the monetary intervention is informative in the positive sense. Paying an artist well for her painting is likely to raise her self-perception, and supports her incentives to go on producing good art. The history of art is full of accounts suggesting that this crowding-in effect under many conditions strongly applies to artistic endeavours. Hundreds and even thousands of prizes, stipends and other monetary rewards are used to inform the winners that their artistic products are highly regarded, and the sum of money is often of secondary or (in the case of already accepted artists) even of no importance.

The crowding-in and the crowding-out effects of monetary and regulatory interventions is based on a well-established and empirically tested psychological theory (see e.g. Lane 1991). It suggests that the relationship between cultural values and the efforts to influence artistic activities is more varied than the commercialization effect claims. It is a worthwhile endeavour of future research in art economics to go more deeply into these issues.

Elitism, democracy and art

Klamer seems to hold the view that art is a matter of the selected few, that it is 'aristocracy in a modern design'. He does not believe that cultural choices can be left to the people. This is certainly the dominant view both in the art world and among economists. I have a different view which has been shaped by the experiences in my own country, Switzerland, with having citizens participate in decisions on culture. I am convinced that democracy need not stop where art begins but that it can be integrated to the advantage of both. This even holds for direct democratic decisions via popular referenda.

An illustrative case is the acquisition of two paintings by Picasso, *Les Deux Frères*, created in his 'Rose Period' (1905/6) and *Arlequin Assis* (1920) by the Basel art museum in 1967. The two oeuvres were offered at a price of 8.4 million Swiss francs of which 2.4 million Swiss francs were raised by private and corporate donations. The government and par-

liament of the canon Basel-Stadt decided to spend the remaining 6 million Swiss francs, but this decision was subject to the obligatory popular referendum. After an extensive and lively discussion of the value and place of contemporary art in society, the referendum yielded 53.9 percent 'yes' votes. This was probably the first time in history that the population was explicitly asked to decide on particular pieces of modern art, including the cost consequences. Many art lovers were rather sceptical whether such an issue should be left to the discretion of the 'uneducated masses'. It should be noted that the favourable outcome of the popular vote in favour of contemporary art could not at that time (1967) be taken as a matter of course. Picasso himself was clearly aware of the significance of this event. He was so delighted about the popular support for his art that he donated two paintings to the

Notes

1. I am grateful for support of the Swiss National Fund (grant 12-42480.94).
2. Assume a real rate of return of 3 percent per year, a rate of 'world inflation' of 3 percent, and insurance cost of 0.5 percent per annum, then the price must rise to 120.4 million US dollar after 6 years. To this, the seller premium of

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Basel art museum, *Vénus et L'Amour* and *Le Couple*, as well as two drawings.

Research by Werner Pommerehne and myself indicates, that such outcomes of popular referenda on art are not rare. Indeed we found that the citizens in Switzerland are more inclined to accept referenda on cultural expenditures than on outlays for other kinds of public activities.

An essential ingredient of referenda is the discussion process preceding the actual vote, as well as the post-referendum discussion interpreting the outcome. The role of discussion has, of course, been an aspect which Arjo Klamer has forcefully emphasized in his previous work. I look forward to seeing his mind applied to combining art, economics and discussion; I am convinced that such an integration will provide most useful insights.

- 10 percent must be added, totalling 132.4 million US dollar.
3. I have always wondered why such closely related activities should not be included. If one does not, practically all scholars whose research cannot be immediately used, would have low income. But, of course for scholars it is taken for granted that they teach for a living.

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