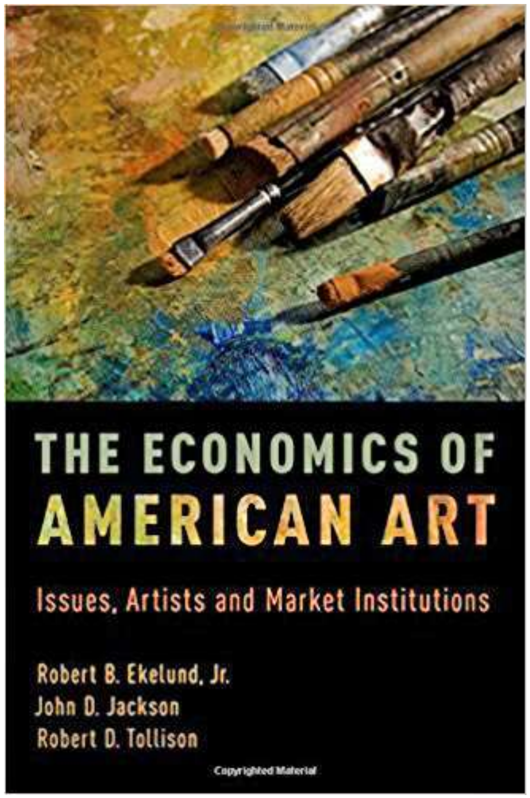

Review of

The Economics of American Art: Issues, Artists, and Market Institutions

By Robert B. Ekelund, Jr., John D. Jackson and Robert D. Tollison

Oxford University Press, 2017

By Paul Gentle

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This book provides insights into the workings of the art market, especially in regard to paintings. Attention is given to what determines the prices and return on an investment in paintings. This book provides information important to collectors, auction houses, galleries, art experts, and economists. As an economist and not an artist of paintings, I found this book to be very accessible. Although some economists may not spend an appreciable amount of time in the art field, we all need to be cognizant of markets concerning these potentially valuable items, especially of the high end variety. This book is perfect as a detailed summary of what an economist needs to know.

Among the subjects discussed in the book are valid, true paintings, as well as fakes and fraud. Employed for analysis in this book is a unique set of 14,000 art auctions observed between 1987 of eighty American artists born before 1950. These paintings are what economists term credence goods. Actually, these goods are "particularly vulnerable to fraudulent behavior" (p. 49).

The book's authors' credentials are impressive. Ekelund is a Professor of Economics and Eminent Scholar Emeritus at Auburn University, and he once served as Co-director of the Julie Collins Smith Art Museum. Jackson is also is a Professor of Economics Emeritus at Auburn and a famous scholar of applied econometrics. Tollison, who passed away in October, 2016, was the J. Wilson Newman Professor at Clemson University.

A very key part of this book concerns a new set of auction data on eighty important American artists from the nineteenth and twentieth centuries, which reveals that fully half of art sales are made in galleries "for which little hard information exists" (p. 9). The authors observe that within the last two decades, the center for art in the West shifted from Paris to New York. Very detailed statistical models are used to examine the questions posed in this book. The results of those models serve as part of the basis of summaries on different art issues.

Marketing by the auction houses Sotheby and Christie has employed the Internet to sell comparatively low priced art items. This has been done with some measure of success through eBay and other Internet means are being considered. However, Sotheby and Christie do not use the Internet for higher priced items. Instead these are sold and marketed directly by the auction houses themselves.

Art sales in America are made through auction houses, and half are sold through art galleries, “many of which participate in ‘art fairs ’” (p. 17). Markets for fine art of some type “have always existed in America and internationally through history” (p. 17). The art market is sometimes influenced by the Veblen effect, also known as “conspicuous consumption”. A person’s “newly opulent involvement,” denotes high status in the community (p. 30).

Schools of art are actually “conglomerations of art interested in similar subjects” (p. 52). The Hudson River school, which focused at first on the landscape of the Hudson River, is an example. In several places of this book, the authors point out that European and American authors greatly influenced each. Due to historical events such as World War II, artists have moved from country to country and even sometimes different continents

Currently there are 200,000 or more working artists in America. It has been found that artists tend to reach a peak early in their work. These artists often had their peaks during a certain period of a major school of art. This varied between artists. Their peaks often occur when their work has the higher monetary value. In general, artists tend to reach their maximum creativity as their life proceeds into older age.

The theme of credence is explored by the authors in regard to accuracy of prices for art. In regard to the market place for American art, particularly high-level art, this has been located at a number of private galleries. New York City, in particular, is the home of many of these galleries

The book’s authors consider the question art as an investment. In evaluating the opportunity cost of buying and holding art, some researchers have used the Standard & Poor’s stock-price index. The authors present the results of using it in the investment analysis section of the book. Their conclusion is that, overall, art is not a comparatively good investment. Post 1950 art is the most remunerative. “The result that art is a poor investment is neither new, nor surprising” (p. 157). Therefore, there may sometimes be some utility, “psychic income,” in owning a work of art because, an investment, art does not often give high monetary returns to its holders. The authors based this conclusion on the eighty paintings used as a data set in this book. This does not mean that absolutely none of the individual paintings are not a good investment.

Theft and fraud of art are examined in the book. An art thief will continue in his thieving behavior until the marginal cost of such acts exceeds the marginal benefit. These criminals consider the possibility of being caught. To avoid detection, it would benefit a criminal to forge or steal art works of limited value. Accounts in the media about famous, expensive paintings being stolen alerts the public to be on guard for stolen or forged art.

When an artist passes on, prices for his or her works may go up some around the time of death. Immediately following the death, the prices increase the most. Subsequently, prices taper off. A bubble takes place when art buyers bid prices up temporarily. Both cycles brought about by death and bubbles “have punctuated the history of art, and they will continue to do so” (p. 249).

The authors conclude that an interface between art and economics produces an additional appreciation for what are some of the most uplifting aspects of art and culture In the book’s last chapter some findings are reviewed. The authors observe that along with the traditional economic variables which can be measured, economists must also look at variables that are not measurable. These include history, psychology, aesthetics and biography The authors quote James McNeil Whistler: “ An artist is not paid for his labor but for his vision.”

The hard work necessary to provide detailed verbal explanations and statistical testing produced this book. It is a landmark work In some of my future classes that I teach and future research, I am sure I will be consulting this book.

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