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A Value Theory of Art

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Abstract. Price is the hallmark in economics. Discounting under growing uncertain risk over time dominates finance. While finance structures objective measures to perceive price patterns and market trends, it is striking to have no theory of what art becomes more valuable over time. As there is no value theory of arts, we have no structured knowledge about what and how arts become more valuable over time. As for the growing importance of arts as an economic multiplier and systemically-widespread collateral, the need for discounting arts' future value has gained unprecedented momentum [1]. Solving the question why some arts survive and particular art pieces become more valuable over time could help integrate discounting elements in classic public goods theory in welfare economics that focuses on creating lasting common value over time.

Keywords: Art, Costs & Benefits, Collateral, Discounting, Economics, Law & Economics, Security

1 Introduction

1.1 Art finance and the missing theory of value in arts markets

The economic impact of arts has been rising during the past decades in the Western world [2]. Since the 2008/09 World Financial Recession, art has encroached the finance world in unprecedented ways. In the US, art has emerged as prominent collateral – hence as a security when individuals or institutions are defaulting on their debt. Art has also been intertwined with finance in the newly emerging cryptocurrency market, foremost in the use of non-fungible tokens (NFTs). The COVID-19 pandemic opened up the online market for arts production and entertainment, which led to a qualitative and quantitative expansion of the arts world [3], [4].

With art becoming more economic and finance oriented, quantitative measures of art pricing evolved in the most recent decade. While we have a foundation of economic pricing theories as well as discounting insights dominating finance, value generation in the arts market is rather less understood or measured scientifically. Art supply and demand feature certain unique peculiarities.

On the supply side, art is a concentrated and refined insider market with certain oligopoly gatekeepers dominating the industry. From the finance perspective, art pricing has a highly speculative price evaluation for which hardly any economic theory has a specific pricing model. Art price volatility stems from the subjective value of the perceiver of the arts and common problems with authenticity, property title and behavioral aspects in the creation of art. The relation of artists with their managers is a contested principal-agent dilemma, in which the managers are incentivized to collide and extract rent from artists via unethical ways. Artists tend to breed norms of pauperism in search of independence and freedom of expression in the art, which oftentimes leads to suffering in the art production, for which markets are willing to pay higher prices.

From the demand side, art offers many intangible individual and cultural values that monetary models can hardly capture. Aesthetic, hedonistic, social, historic and innovative elements are all influencing art pricing in a unique way that is often ignored by standard neoclassical price calculus. Foremost cultural economics and public welfare economics describe the overall value of arts for society. But pure financial value discounting information is missing in the literature to capture the multifaceted ways arts can enlighten and bevalue society of today and its many generations to come.

This paper addresses the first attempt to derive a value theory of art in finding a common pattern that explains why some art becomes more valuable over time and others fades on importance and price. The value theory of the art will theoretically draw from Friedrich von Hayek's Knowledge Paradigm and Luxury studies' insights. Economic and financial features of art value measurement will be highlighted. The discussion envisions future research avenues.

2 Theory

2.1 The art market and most recent art market developments

Art has a long history. From ancient time cave artistic relicts to Renaissance cultural heritage that creates economic value to this day in tourists flocking in from all over the world to see and experience these cultural treasures. Art is part of human history and its innovative future.

The interconnection of arts and finance also looks back on an old and long history. From the Renaissance Medici banking family financing art to modern day cryptocurrency-backed arts production online. Art and finance go well together. For the arts, finance enables new market ventures and grants an affordable living to artists even if their art is produced without marketability in mind. For finance, the connection to the arts grants broad-based diversification potential and signals a sophisticated clientele that is savvy in cultural value conservation.

Today's art market has reached a 65 billion USD sales value, which accounts for more than half the world nations' GDP [3], [5]. Transactions grew by 4% in 2023 compared to 2022 with private auction sales accounting for the strongest segments [3]. Online art markets, which represent 23% of the entire market, grew by 7% in 2023 [3]. Market outlooks are positive, with more than one third of art dealers expecting art market sales to grow despite a rather stable performance [3]. Especially for high-end markets and online contemporary markets, the outlook is assumed to be overly positive – with 50% of sales personnel expecting sales to grow – despite market fundamentals not warranting for this euphoric trend [3].

2.2 Multi-faceted art value creation

The art markets feature specific peculiarities, which are hardly captured by standard neoclassical economic theories and practices [6], [7]. Behavioral economics opens up the utility function for a broader spectrum of subjective value generation. Psychological factors and the social role of arts play a role in arts purchases, which adds complexity to price determination [8], [9], 10], [11]. Like in John Maynard Keynes' beauty contest analogy, art value determination is a collective undertaking, in which appreciation occurs over time and by the whole of society [12]. The social diffusion of taste in the arts embeds art in culture and shapes foreign images of nations [13].

Heterodox economics and cultural finance measure unconventional arts pricing mechanisms in the arts world. Economic sociology covers the role of arts in society and the meaning of cultural frameworks. In general, art grants a surplus to commodities and financial portfolios that is different from standard economic goods and financial fundamentals. Art helps diversify financial investments due to incorporating aesthetic or non-economic meaning. Art is insofar detached from real economy fundamentals as it turns out to be countercyclical in demand. When the economy faces a downturn, classic arts purchases are increasing. Art funding is also insofar countercyclical as when the economy is booming, the government funding for art is usually lower than when the economy faces a downturn [14].

For society, arts hold enormous value, especially over time. Art is as old as humankind and has a long history [10]. Professional art production grew out of royal gifting cultures and the competitive race of European royals in luxury display [15], [16], [17]. Art can be a public and private good but features educational cultural value alongside the economic opportunities to derive value from entertainment [18]. Arts generate direct revenues for nations in tourism and indirect assets in a whole-rounded education opportunity. Subsidizing arts can serve as indirect income redistribution means [19]. Arts bestow society with symbolic capital and give interaction platforms [20], [10]. Arts connect the history in tourism for the classics with innovation in artists sensing trends and creating the cultural capital at a moment in time [21], [22]. The aesthetic sensibilities are captured in contemporary art, which allows setting a legacy for posterity [23], [24], [25], [26]. In performing arts with a provocative edge, arts provide a social arena for public discourse and innovation foundation for experimental advancement [27]. Artistic freedom of expression allows for cultural critique and societal reflection [28]. Cultural value thereby also breeds diversity and attracts foreign influences, which heightens the international standing of nations. For all these mentioned multi-faceted features of arts, artistic production promises economic gains and financial returns. Yet until today, we have no formal value theory of the arts.

2.3 Value theory of arts

Art value pricing has a growing interest with the advent of art in finance. Since the 2008 World Financial Recession, art has become a prominent security in finance as other traditional collaterals saw rising governmental scrutiny. Art financing has also reached another level qualitatively and quantitatively with cryptocurrencies' advent and non-fungible tokens saving artistic output online. Art production and consumption shifting to online spaces during the worldwide COVID-19 lockdown era perpetuated the trend the trend of art in finance in the digital world. In the post-COVID-19 celebration of large cultural events, arts entertainment prices have skyrocketed [29].

Arts economics and financial value estimations of the art grapple with the incommensurable aspects of subjective perceptions of the arts. Art pricing is perceived risky as there is no clear value theory of the arts that determines what kind of art becomes financially successful, at what rate value increases and what the influence factors are that let arts value rise [18], [10]. To this day, the scientific discourse about irrational arts pricing has been limited. Cultural value creation mechanisms remain still opaque and there is no internal consistency of financial value measurement for arts value determination.

In the first model of value generation in the arts, external influence factors on arts appreciation can be derived by historical anecdotal evidence. Art sales demonstrate historical appreciation potential over time that is independent of economic trends but more dependent on art dealer and auction pricing. Art has a strong track record of economic performance during times of economic upheaval [30]. In the arts, beauty is confirmed by the passage of time. Think of Vincent van Gogh's work having hardly any monetary value during his lifetime and the enormous amount of money currently being attributed to van Gogh's paintings, which account for the most expensive in the world. Some arts pieces have seen dramatic value improvement over time, which may stem from anchoring biases of the intrinsically-motivated art holders. Anchoring may lead to holders of art reselling it for at least the price they bought a piece, which triggers a natural price elevation over time. Some of these slowly-increasing but most valuable arts pieces over time have inspired many generations of tourists long after their initial production to travel to see them when being on public display. Art pieces like these generate enormous value over time for nations. Think of Vincent van Gogh's Monalisa or Michelangelo's David. To this day, people from all over the world travel to see them.

When trying to find ingredients of success of arts over time, the question why some arts survive and some art pieces become more valuable over time arises. Friedrich von Hayek's [31] Knowledge Paradigm but also Luxury theory may offer cues.

In economics, Hayek [31] argues that the problem society faces is that knowledge is not completely given to a single mind, who is not capable of working out the implications of knowledge fully. Building on Friedrich von Hayek's [31] knowledge paradigm, of dispersed, incomplete and contradictory information held by humankind, only a few pieces of information out of each epoque survived over the course of human evolution.

The entrepreneur has better knowledge and can use it in a more efficient way. According to Israel Kirzner, entrepreneurship is a discovery process in the real world, where knowledge is dispersed. Spontaneous order rules the cooperation in markets featuring decentralized decisions leading to entrepreneurial discovery and activities. Discovery is a learning process afar from the mainstream equilibrium idea. Markets are understood as discovery processes of entrepreneurs that are gaining a profit [32].

Similarly, in the arts, artpreneurs are those who have a better sense of building on the old but counterbalancing it with new and innovative ideas. Artists who become enormously famous are often those who saw the world through different perspectives than the rest of prevailing artists. They became leaders-in-a-new-genre and inspired others around them to adopt their way of thinking and creating.

When figuring out rising arts values over time, one can also draw from luxury theory. In luxury management, luxury items were found to not have been destroyed in previous times, e.g., when royals were abolished and their relics destructed, when luxury items were 'too public value to be forgotten/destroyed' [17]. Luxury artistic ornaments were believed to be too precious to be destroyed when their *Gestalt* or ensemble was felt to be larger than its pieces [17]. Luxury also proved to be untouched by revolutionary destruction when there was a common consumption opportunity or social identity formation in the arts piece, e.g., like major drums that were used to inform people and for strategic crowd control purposes during emergencies and wars [17]. Art was also conserved when it helped in the mastery of the world and heralded futuristic innovative elements, e.g., like the first time and distance measures or the first computer of 'The Turk' machinery that was held by the Austrian Hapsburg royals [17], [33], [34]. When applying these insights to the value generation in arts over time, discounting elements of art could find value in innovative elements of arts. Art builds on the old but offers a new interpretation of the world. Those artists who change the prevailing style appear to become leading figures who conserved the moment in time for eternity. Those artists who also breed a group of influential followers around them are predestined to establish themselves as innovators who ignited a new era.

Art must have elements of being larger than its singular pieces, connecting the art to society as well as offering a new way of living. The *Gestalt* formed by new art is best seen in ensembles and art exhibitions that bring together pieces to form a story. Art can become in the service of people when granting possibilities to learn and thrive through the arts. The common enjoyment of artistic output can create a notion that art is too important to vanish or be destroyed. Innovative elements in art can highlight the role of art for society and connect the arts with future generations. In all these features, art can have enormous value for society and therefore increase in value over time.

3 Discussion

Art is as old as humankind. Artistic output has entertained cultures ever since. To this day, art accounts for an economic multiplier that draws in masses of tourists as well as mobilizes people to spend and consume. Yet little is known about why some art becomes enormously influential and why the majority of art perishes within a lifetime.

Contemporary cutting-edge questions remain if the big data storage age will change anything in the art survival dynamics. If now art is more conservable over time given big data storage capabilities, will this decrease the overall value of art since art pricing is raised when facing scarcity? Or will digitalized art lead to tabbing into new funding streams for the arts, e.g., from younger clientele. Since the COVID pandemic, art consumption has shifted to online platforms, which may delude the experience at hand but also brings enormous potential to cater different cultures and consumer groups via digital platforms that have a global outreach.

Other critical questions may be asked, such as why some cultural heritage has been more dominant in attracting finance while others have not gained so much attention. In a comparative analysis, cultural differences could be explored in capitalizing arts and intertwining it with commercialization. The US but also Europe have a long tradition of selling art and entertainment to the world. While the US entertainment world serves an international market, the European cultural heritage attracts tourism from around the world. The motivations and mechanisms for commercial success of the arts and the role of the government and markets for art production should become subject to scrutiny in order to derive inferences for the compatibility of Western models with other cultural production. Future research could also look into the rising trend of art being used as a collateral, which is emerging in the US. The impetus of arts financialization for improving the arts world should be balanced with caution about overloading the economy with a collective borrowing binge in the arts world. Systemic use of art as a collateral is insofar critical as this trend occurs without public scrutiny and oftentimes is not made transparent in order to not devalue the arts consumption moment for customers.

Future research should also quantify the assumptions put forward and test a model of art valuation over time. Stringent hypothesis testing should follow case studies that outline cultural differences and success stories about how to gain value from the arts for society. Governmental aid of the arts and commercialization of the arts in the private sector should be compared in order to derive inferences over multiple cases and on the international level. Long-term studies over time should also embrace historical aspects of the arts and zoom into different times in human history that were exceptional art value production epochs, like the Renaissance. Art breeding grounds and art center components could be unraveled in order to give strategic recommendations for arts production. Identifying art success factors will help transfer wealth over time and create lasting values for eternity.

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