Economists Are Wrong!

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Is art an economic activity? Should art be independent of economic pressures? Is the value of art to be determined separately from its value as a commodity? Can we apply the Marxist labour theory of value to art? Mainstream economists do not ask these questions; they presuppose answers to them. Economists think everything is economic. Economists are wrong!

Art and Labour

When an economist says a "work of art often arrives on the market because of one of the famous 'three D's' (divorce, death, or debt)" it is clear that cultural economics places its emphasis on consumption and the secondary market. From a Marxist point of view it is utterly absurd for a product to 'arrive' on the market without being produced or arriving on the market from consumers. Even if we could press the economist to start the economic analysis of art with its arrival for sale on the primary market, we would have arrived too late. No Marxist could knowingly subscribe to such a belated economic analysis. Artworks themselves cannot be a given, as it is for mainstream economics, but must be identified as the object of economic analysis.

Errors are made by not knowing what precisely Marx's labour theory of value sets out to explain. Andrew Kliman tells us, "Marx's value theory ... pertains exclusively to commodity production, that is, to cases in which goods and services are 'produced for the purpose of being exchanged', or equivalently, produced as commodities." This is important for a Marxist economic analysis of art because, as he goes on to say, "if the products have been produced for a different purpose, that of satisfying the producers' and others' needs and wants, they have not been *produced* as commodities." Kliman explains, a "key reason for distinguishing between commodity production and non-commodity production is that prices or rates of exchange are determined differently in the two cases. When things are not produced as commodities, the rates at which they exchange may depend exclusively upon the demand for them, or upon normative considerations, or ... upon customary rules. It is only when products are produced for the purpose of being exchanged that their costs of production become significant determinants of their prices."

Not all production is commodity production. Not all production is production for financial exchange. Not all production is determined by supply and demand. Economics is not the best method of examining non-economic production. Economists give artists bad advice.

If artists increase and decrease production according to demand and alter the production of their work according to the preferences of the market (eg halting production of this version of their work and expanding production of that version of their work), then they must be in the business of producing commodities. At the same time, of course, we must insist that if artists do not increase and decrease production according to demand and do not alter the production of their work according to the preferences of the market, then they are demonstrably not in the business of producing commodities. If art is produced as a commodity, that is to say produced for the purpose of being exchanged, then it is the kind of product that Marxist economics explains. If art is not produced as a commodity, but rather to satisfy aesthetic and cultural needs and wants, then it is not. There is no shortcut to this kind of economic examination, no general rule, no standard economics of art in the age of consumerism, or the changing economic status of the artwork in the society of the spectacle. We can look at art's apparent commodification only by asking on a case by case basis whether, as Kliman puts it, "their costs of production become significant determinants of their prices".

Mainstream economists will argue that the labour theory of value is mistaken. This is partly based on the fact that mainstream economists are not interested in the source of value at all (they have no alternative explanation to the Marxist argument). It is also partly based on the fact that mainstream economics takes for granted the key elements of capitalism (supply and demand, prices, profit, wages, etc), whereas Marxism calls all these into question. Marxism shows us the limits of economic thought and the limits of a social system based on market forces. Marx was right. Capitalism inexorably leads to crisis. Economists tell us, on the contrary, that supply and demand is a self-correcting mechanism. Economists are fucking wrong!

Following the labour theory of value, we would expect to determine whether art is produced as a commodity from an analysis of artistic production, not by examining the behaviour of its consumers or its systems of distribution and display. If we find that art production does not correspond to the model of commodity production, then no matter how art is subsequently brought into the circulation systems of capitalism, *art is not converted into a commodity in its consumption*. The labour theory of value proceeds from the value of labour, so we need to ask whether the prices of artworks are determined by the value of the labour in their production.

The labour theory of value, which explains how value is produced within capitalism, states that *labour* is the source of value. This value is then broken down into three types: the transfer of value, absolute surplus value and relative surplus value. Machines, for instance, transfer their value to the product; labour-power produces absolute surplus-value, that is to say, value on top of the wages paid for it. Relative surplus-value is produced by the division of labour, automation and so forth, which through increases in productivity and efficiency do not produce value in itself but increases the proportion of surplus-labour in relation to wages.

We can test the question of the price of artworks as determined or not by the cost of labour in production by observing the means of production. In capitalist commodity production capitalists increase absolute surplus-labour (and thereby surplus-value) by attempting to extend the working day, the working week, the numbers of days worked in the year, and the number of years worked in a worker's life. Second, capitalists increase relative surplus-value through the use of technology and supervision, which play an effective part in driving down labour costs through the division of labour, deskilling and increasing productivity.

If the price of an artwork is set by the labour that goes into it, then we would expect that prices of artworks would vary according to the average labour that goes into producing them. When the price of an artist's work goes up, this is not because the labour producing it has gone up, that the assistants have managed to have their wages increased, or their hours reduced. Also, when the price of an artist's work drops, this is not due to the efficiencies of competitors in the market who have managed to get their production costs down. No, the prices of artworks do not fluctuate according to the cost of labour, technological efficiencies, or increases in productivity. Art prices are not determined by 'socially necessary labour-time'. Mainstream economists might argue that art's high prices disprove the Marxist labour theory of value but what is shown here is that art is typically not produced as a commodity governed by supply and demand.

Of course, assistants are wage-labourers. But this, in itself, is not proof that artists generate surplus-value from them. If assistants do not produce surplus-value then they are to be regarded as luxuries, like domestic servants in the nineteenth century. The distinction between productive and unproductive labour was derived by Marx from Adam Smith. Smith's definition of unproductive labour still stands today: *labour not exchanged with capital but directly exchanged with revenue*. There is no such thing as productive or unproductive labour in itself. The difference is between labour that produces profits and labour that consumes revenue. In the nineteenth century this distinction was clearly illustrated with the contrasting ways in which the capitalist paid two kinds of wages, one to the workers in a business enterprise, and the other to domestic servants in their homes. The former was productive because it produced surplus-labour and the latter unproductive because it used up revenue. Another, clearer, way of understanding the distinction between productive and unproductive labour is to examine whether the capitalist or the labourer owns that labour.

If we retain our focus on artistic labour, rather than its products, the test of Smith's definition of unproductive labour provides clear results. Is artistic labour exchanged with capital or directly exchanged with revenue? Since artists are not wage-labourers employed by capitalists, but own their means of production as well as the products that they produce, we are forced to conclude that *artistic labour is unproductive labour* even if certain capitalists, such as gallerists, dealers and later in the process, investors, earn a profit from trade in the *products* of artistic labour.

Normally, unproductive labour does not produce products that are luxury goods; normally the unproductive labour is the luxury good itself. Art is unusually unproductive labour that is not a luxury in itself but produces luxuries without first producing commodities. Studio assistants are wage-labourers, but if they are unproductive labourers, like domestic servants, then they do not produce surplus-value.

But if the value of labour does not determine the price of artworks, what does? The variations of price of an artwork are not due to underpaying or overpaying in relation to the actual value, nor is it due to an increase or decrease in the average cost of the means of production. A collector does not pay less than the value of a work by a young artist only to realize its true value once they become a mature artist. Both the relatively cheap price and the relatively expensive price are the true value of the work at two different points in time. Art appreciates. However, while investments normally appreciate because a firm for which one owns shares is profitable, or is perceived to be so – that is to say, by drawing on or anticipating the production of surplus-value in production - this is not the case in the appreciation of artworks. The relative cheapness of a work by a lesser known artist or 'early work' is based on the risk that the artist will never develop a significant career, and the relative expensiveness of the same work later on is based on the subsequent rarity of 'early work' and the price of the mature work, which retrospectively sets the pace for prices of earlier works. Just as skilled workers are paid more than unskilled workers because this kind of labour costs more to reproduce, the cost of reproducing a successful, mature, reputable, established artist with hundreds of important exhibitions and a bibliography to match is expressed in the price of their works.

But this explanation, which can be found partly in Diedrichsen, presents an immediate difficulty, which Diedrichsen misses. The reputation of an artist is not a quality which is contained in their labour, is not produced by them, and is not in their control. The reputation of an artist is ascribed to their work by others. So, if we are to explain the high prices of artworks in terms of the reproduction of labour-power that produces them, we need to consider the labour-power of those who contribute to the value of the work's reputation, namely art critics, theorists, curators and art historians.

Formal and Real Subsumption

How might we test, from a Marxist point of view, the common complaint that art has been incorporated by capitalism?

Marx's distinction between *formal* and *real subsumption* is part of his explanation of the incorporation and transformation of particular spheres of production by the capitalist mode of production. We must remind ourselves that Marx did not theorize the subsumption of commodities. For Marx, the incorporation and transformation of spheres of production occurs with the formal and real *subsumption of labour*.

The formal subsumption of labour takes place when the capitalist takes financial control of production – owning the means of production, paying wages for labour-power, extracting surplus-labour and surplus-value, before production a market relation is established between the capitalist as a purchaser of labour and the worker as a seller of labour, and within production these same individuals are put in a conflictual relation with each other in which the capitalist struggles against the workers to extend the working day, increase productivity and so forth, while the workers struggle against the capitalist to reduce the working day, improve working conditions and so on.

The real subsumption of labour goes further than this, establishing a capitalist mode of production with the division of labour, the employment of machinery, the centralization and intensification of production on a large-scale and the transformation of the production process into a conscious application of science and technology. In short, everything that is implied with the idea of industrialization. Formal subsumption is presupposed by the real subsumption of labour, but only the latter can be described in terms of what Marx calls the continual revolution of the means of production and relations of production in capitalism.

To determine whether artistic labour has been subsumed, we need to ask ourselves, therefore, two questions. First, whether artistic labour has been converted into wage-labour, and second, whether the production of art has been transformed by the processes of industrialization. The producers of art still own their means of production. Unlike in the capitalist mode of production, the product of the production of art is invariably owned by its producer. Artists have not been converted into wage-labourers, employed by a capitalist. Gallerists have nothing to gain from extending the working day of artists, and, technological developments are not implemented to increase productivity. The gallerist does not establish a relationship with the artist along the lines of the capitalist-worker relationship. There is no labour market separate from the market for artworks produced by artistic labour. Dealers do not employ artists. And since no gallerist takes ownership of the means of production for art or engage individual artists to operate those means of production, consequently, the gallerist, unlike the capitalist, does not own the product. The gallerist enters the marketplace of art with capital and leaves the marketplace with profit, but they do this without formally subsuming artistic *labour* under capital, but by converting commodity-capital (artworks) into money-capital. And this is why there can be no real subsumption of art.

Wake up to the fact: the subsumption of labour can only take place with *productive labour*, that is with labour that is capable of producing surplus-value directly for the capitalist.

The Mainstream Economics of Art

Hans Abbing proposes that art is economically *exceptional* because it is 'sacred'.[1] Abbing says there is a 'taboo' on talking about money in relation to art: "profit motives are not absent, they are merely veiled, and publicly the economic aspect of art is denied".[2] The reference to taboo is a deliberate strategy to associate the uneconomic in art with irrationality. When he recounts the values of the art community, he frames them in terms of 'myth', 'taboo', 'ritual' and 'the sacred'. He is convinced of the rationality of the economic, while subscribing to the idea that the arts promote an alternative 'value system', 'the gift

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[1] Hans Abbing, *Why Are Artists Poor? The Exceptional Economy of the Arts*, Amsterdam University Press, 2002

[2] Abbing, *Why Are Artists Poor?*, p.47

sphere' or 'the gift economy', an idea that he derives from the abstruse anthropological ideas of Lewis Hyde.[3] The concept of the 'gift economy' allows Abbing to register these so-called irrational values without them coming into conflict with economics and economic value. In fact, the apparent irrationality is a cover for economics. In art, he says, "anti-market behaviour can be profitable".[4] Economic value trumps the values of art every time. This is the precise opposite of the Marxist critique of political economy. From a Marxist point of view (ie the *critique* of political economy), art's antagonism to economics is not a 'taboo' but a clear-headed defence of art's value from its dangerous liaison with sales, markets and business. Abbing's economics of art alerts us to the controversial encounter between the values of art and economic value, but it does not analyze this antagonism as an instance of the abiding contradictions of capitalism itself.

Mainstream economics has for several decades been developing what it calls Cultural Economics. From 1966 onwards, with Baumol and Bowen's[5] pioneering work on the 'economic dilemma' of the performing arts, mainstream economists have increasingly come to think if art as an almost standard economic sector. If you insist that art is an economic activity like any other, then tell us, is the artist part of the proletariat, producing value through labour or, is the artist the capitalist or entrepreneur who makes artworks specifically for sale, advancing capital to pay the wages of assistants from which the artist makes profit?

The debates on the funding of the arts from the late 1960s through until the 1980s, byBaumol and Bowen, Richard Musgrave, Alan Peacock, William Grampp, Gary Becker, David Throsby and others, has followed a clear pattern in which the case for the public funding for the arts was increasingly shot down by the case against subisidies. We are now feeling the full force of this theoretical sea change in the cuts to the arts. In this period, arguments have been presented for art to be regarded as a Veblen good, luxury good, public good, merit good and information good, among others. The debate has narrowed severely in recent years, resulting in the apparent victory of a neoliberal agenda for the arts. "Despite the special position that art occupies in the fabric and culture of societies," Clare MacAndrew says, "the reality is that art is produced, bought, and sold by individuals and institutions working within an economic framework inescapable from material and market constraints. The economic case is clear: the market for works of art functions at least as well as many others (albeit imperfectly and with certain special features), as it allows market transactions by voluntary consent, in which buyers and sellers mutually benefit."[6]

It is interesting to note that economists do not agree what kind of good art is. The question of whether art is a *public good* keeps resurfacing despite the best efforts of neoliberal economists. The persistence of the question has sound economic grounds. Technically speaking, a public good is a good that is *nonrival* and *non-excludable*, ie that the consumption of it by one person does not prevent others from consuming it and that nobody can be excluded form consuming it. This seems to fit certain patterns of 'consuming' artworks (viewing them in galleries, museums, reading about them in books and magazines in libraries, online etc) but does not adequately account for artworks 'consumed' as singular or unique objects by collectors and investors. In some respects artworks also exhibit the characteristics of *information goods*, and in other respects they exhibit the characteristics of a *Veblen good*. On the other end of the scale, Richard Musgrave includes art among his list of *merit goods* – ie products that

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[3] See, Lewis Hyde, *The Gift: Imagination and the Erotic Life of Property*, Vintage Books, New York, 1979
[4] Abbing, *Why Are Artists Poor?,* p.48
[5] Baumol, W. and Bowen, W., *Performing Arts: the Economic Dilemma*, New York: Twentieth Century, 1966
[6] Clare MacAndrew, *Fine Art and High Finance*, Bloomberg Press, NY, 2010, p.19

individuals ought to have regardless of their ability to pay for it. As such, for most of us artworks are distributed and displayed as public goods, not commodities.

It is rare – perhaps unique to art – for a product to have all these economic properties. Art does not belong to one category of good alone. Even the most expensive artworks exist within several distinct economic categories. This means that it is impossible to prevent art from spilling out of these economic categories, even when it seems to be exemplary of that category. This is the case in the relationship between art and luxury goods.

Art and the Economics of Luxury Goods

In mainstream economics a luxury good is a good for which *demand increases more than proportionally as income rises*. What this refers to is the fact that even if the wealthy buy more expensive and higher quality bread, cheese and other necessities, they do not increase their consumption of bread and cheese *proportional* to their relative wealth; their consumption of sports cars and designer clothing increases at a greater rate, becoming an increasingly large proportion of their expenditure. The formula seems sound enough, but it leaves out two entire branches of commodities that are not luxuries but which increase more than proportionally as income rises, firstly financial goods (investments, bonds, shares, etc), and secondly expenditure on labour and machinery by the owners of firms, which also increases disproportionately to income. Nevertheless, the formula is at least good enough to account for certain consumption practices in relation to artworks. Roman Kraussl makes the standard case: "Art is a luxury good. If aggregate levels of wealth are high, the demand for art may also be expected to be high, as investors may spend part of this excess of wealth in the arts. Changes in income are therefore likely to have a significant effect on the demand for art and the prices paid for works of art."[7]

The art market is indeed a vast luxury trade. But art is not a standard luxury in terms of its production. Unlike *haute cuisine, haute couture* or *fine and rare wines*, there need be no high quality within the product. At $15M, Damien Hirst's stuffed shark is one of the most expensive artworks by a living artist, but it is technically inferior to comparable stuffed animals. One could purchase a *better* stuffed shark at a fraction of the cost of Hirst's. Artworks do not have to exhibit any qualities of the luxury trade in their raw materials, skills, technology, or any other intrinsic quality.

Despite the conspicuousness of art's luxury trade, artworks do not conform in many respects to the conventional economic pattern of consumption of a luxury good. Luxury goods such as sports cars are often purchased, as Thorstein Veblen observed, in part to exhibit them. But the display aspect of luxury good means showing off goods that are not normally consumed in their display. However, when a non-owner of an artwork looks at it, she consumes it without purchasing it. This is why artworks are naturally seen as public goods as well as luxury goods. Sports cars and jewellery are not public goods or merit goods in addition to being luxury goods. Artworks, on the other hand, even if and when they are luxury goods are *often* (and, in principle, *always*!) public goods and merit goods. Even artworks that are commodities, even artworks that are luxuries, are never merely commodities, are never merely luxuries. Economists are wrong. Artworks are not commodities and art is not an economic activity. Art hates capitalism even if capitalism loves art. Capitalism loves art because its values are not

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[7] Roman Kraussl, "Art Prices Indices", *Fine Art and High Finance*, p.83-4

determined by supply and demand. The reason economists think that art is sacred or artists are 'perverse' is simply that artworks are not produced as commodities for economic exchange. If all production followed the logic of artistic production, capitalism would be history and economists would be out of a job!

Homo Economicus is a shit artist, a blind art critic, a moronic art theorist, a witless art historian and a cynical curator. Homo Economicus is also a dumb collector, a worthless gallerist, and an unreliable dealer. Let's kick the marketplace out of art. And kick the economist up the arse. Are there any any economists in the room? ...