# Pricing in Opaque Markets: Paintings Old and New

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**Abstract**

Pricing is one of the more difficult aspects of marketing management and poses interesting problems for economists trying to account for what are really a collection of microsales that are not well reflected in aggregate macroterms. The developed models and processes work best for mass produced products but grow increasingly problematic when products are intangible services or unique goods. This paper looks at paintings as a product within a specific "industry" , but many of the issues are similar to those in the professional services (law, medicine, education) and auxiliary services (consulting, IT outsourcing, insurance). There are also aspects of this market which are sui generis—the intermediaries, various types of fraud and the social/cultural implications of the market. There are two particular aspects that are the focus in this paper: the general economics of pricing and investment in high end art and the effects of various types of fraud and opacity on pricing and investment returns.

Economics of the Market. Economists have examined the art market from essentially two perspectives: one, the investment or portfolio value in aggregate terms, and two, trying to create models for various categories of paintings utilizing non-economic factors in establishing valuations. In both cases, the primary focus has been the public, auction prices of established masters. Mandel (2009) summarized thirteen full studies of art pricing and appreciation, covering public prices for painting ranging from 1760 to 2000. Despite changes in the size, extent, and interest in the market, wars and their depredations, appreciation and price growth have been remarkably stable. Some economists (Atukeren and Seckin 2009; Hodgson and Vorkink 2004)have also looked at the masters in regional markets, finding that even at lower price points, the pricing trends and investment returns are similar. These benchmark prices have an impact on the larger market of paintings not sold at auction, but through a complicated network of private agents, galleries, and international art fairs, the sales prices are much harder to determine, as are returns.

Attempts at valuation models are interesting, but depend heavily on expert determinations of aesthetic quality, historical impact, novelty, and rarity (Aznar and Guijarro 2007). Although these can be monetized and applied to the auction prices of particular paintings, they are not predictive and depend heavily on activities that are subject to manipulation and fraud in the actual market. Further, those are precisely the drivers of price setting. It is somewhat easier to value "old masters" which have been extensively studied and which have previous sale prices on which to estimate current values. Current output is far less certain as are older paintings which surface without extensive provenance or study. These paintings are part of the uncertain and frequently somewhat fraudulent transactions (Artspace2000.com Art Fraud Report).

Frauds, Scams, and Evasion. Despite efforts to form and maintain better records of known and new paintings, the internet, and greater openness on the part of the major auction houses, various types of frauds and scams are still operant. These tend to take these forms: outright forged copies, paintings in the "style of" sold as genuine, and sales without proper ownership. While many of these are sold to naïve buyers through private sales (for example, Rima Galleries sales of "Renoir" sculptures), there have been some spectacularly successful frauds which have taken in major museums, art galleries, and hedge funds.

Recent forgeries have all depended, somewhat, on the chaos of World War II, where forced sales, confiscations and sheer destruction created conditions for the introduction of very good forgeries with plausible provenance. Perhaps the two most spectacular in both artistic and monetary daring were those of Qian (based in New York) and Beltracchi (based in Switzerland). In both cases, the paintings themselves were not forgeries of actual works, but rather "in the style of." Qian's, largely sold through the old prestige gallery Knoedler, were generally in the style of more modern art (de Kooning, Rothko, Pollock) and were sold to major collectors, often with authentication from expert evaluators. It is estimated that the direct costs are $80 million and indirectly, possibly more with Knoedler alone making $43 million as a dealer (Bloomberg Businessweek 2013). Beltracchi's painting and dealing had even more far reaching consequences. Representing the paintings "in the style of" as a legacy to his wife that had survived the War in a hidden location, his works were acquired by major museums, the subject of scholarly papers, and involved numerous galleries and foundations. While the German prosecution and subsequent active list notes nearly 50 paintings as solidly identified, there estimates of perhaps 200 more still in collections. Even more damaging, Beltracchi was able to get into museum archives and plant evidence to support the "history" of his paintings. Much of that activity is known to be in the British archives but has yet to be identified beyond materials related to the German list (CBS 2014).

The risks to buyers at somewhat lower price points may, in fact, be even larger, as those tempted to forge or misrepresent, find the scrutiny and controls are more lax and less likely to attract attention. One of the primary results may be a turn for those using art as an investment, both financial and social, to collecting contemporary art and a move away from resale art. Recent public art sales show that while big money is still moving into art, it is buying far more contemporary art and more installations rather than painting. The annual TEFAF reports are showing indications that this is so as is the hallowing out of the mid-market (McAndrew 2014). The other trend worth noting is the increasing importance of art collecting not for display, but purely as a store of value. The record sales of art in the past two years has been fueled by money from places like Hong Kong and Kuwait, and then stored, not displayed. Luxemburg is the first country to explicitly establish “free trade zones” specializing in the storage of art and other collectibles while Oregon has offered tax havens to collectors by providing museum display space without taxation which allows out of state collectors to avoid taxation in their home states due to the now “public use” record for their artworks. Thus, purchasers do not take possession, frequently evade taxes, avoid government or knowledge of what is owned, and have a hedge against involuntary relocations or confiscations.

Finally, there are the murky practices of “fees” by middlemen, both auction house contracts with buyers and sellers and private contact fees. These generally surface only when someone in the chain goes to court (Baker and Miller 2015). These get added to the sales price and the new amounts then become valuation benchmarks. The net result is ever higher prices for unimpeachable masters, a search for “approved” contemporary art, and new methods for moving the money, the goods, and so on at the highest levels. It has depressed prices for mid-level art, and left local artists pricing by the square inch. Lost in all this is actual appreciation of art.

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**Relevance to Marketing Educators, Researchers and Practitioners:** Pricing difficulties and influences on unique items and non-standardized services.

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**TRACK: Marketing Education**