Pre-Press Version of "Transparency in an opaque market: Evaluative frictions between “thick” valuation and “thin” price data in the art market"

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Transparency in an Opaque Market:
Evaluative Frictions Between “Thick” Valuation and “Thin” Price Data in the Art Market

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Abstract

This paper highlights the paradoxical effects of increased price data in markets with difficult-to-value products where non-price factors are highly relevant. In the fine art market, the growth of market information providers facilitated access to auction price data, beneficial in a market noted for its clandestine dealings. Drawing from inductive ethnographic research, the paper notes complex outcomes from increased data availability, as auction prices can be seen as an indicator of an artwork’s value. The findings deconstruct factors of supply, demand and multiple prices in the art market, highlighting important non-price factors in valuation, which complicates provider claims of art market transparency. Unpacking the process through which expert “thick” valuation transforms raw price data into comparables and then valuations helps to explain continuing differences in valuation, with buyers prone to understand past prices as market or reference prices, rather than raw materials for valuation that are adjusted for complexity. This contributes to an understanding of both advantages and predictable problems from increased price data in markets that contain substantial qualitative and non-numerical data, as evaluative frictions can occur even in the absence of clearly defined alternative valuation methods. This develops productive linkages between critical transparency and the valuation and evaluation research.

Keywords

Valuation, critical transparency, incomplete indicators, accountability, art investment, art prices

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“The basic idea of artnet was to bring transparency to the art world, which we did by taking that data — from all the auction houses — and entering it into a single database. People could then subscribe to this, and the auction results would be sent out to them via fax machine”


What happens to valuation when past price data becomes easier to access in markets where goods are difficult to value? As seen in the goals noted by artnet’s CEO above, this might be framed in terms of market transparency, with the common assumption of positive impacts from increased market information. In contrast, critical research in accounting problematizes the quest for transparency, highlighting productive tensions including the practical uses of opacity (Strathern, 2000) and unproblematic use of flawed measures (Dambrin & Robson, 2011). We find narrow indicators with complicated relationships to the object of interest (Robson, 1992; Strathern, 2000; Vollmer, 2007), as well as situations where appropriately flexible usage of incomplete indicators becomes constrained over time (Jordan & Messner, 2012). Nonetheless, we apparently believe in transparency, despite its potential to be complex or misleading (Roberts, 2009; Strathern, 2000).

A set of past price data would seem to allow something like “blue book” valuation or an indicator of an object’s value based on past prices of similar items, enhancing market transparency. But the numerous cautions about transparency certainly apply in situations where price data is only one factor in valuation, and where expertise is needed to interpret and integrate the various forms of information. Even for expert appraisers, valuation can be exceedingly difficult in markets where goods are heterogeneous and where few comparables exist, such as intangibles or difficult-to-value Level 2 and Level 3 assets, seen in research that problematizes fair value accounting (Bromwich, 2007; Power, 2010). For this reason, critical work on transparency (Best, 2005; Henriques, 2007; Roberts, 2009; Strathern, 2000) and numerical indicators more generally (Robson, 1992; Vollmer, 2007) has much to say when it comes to understanding valuation and evaluation, an area where we see ongoing interest in identification of key
processes, outcomes and operations (Lamont, 2012; Zuckerman, 2012). While there can be excellent uses of incomplete, single-factor or otherwise “thin” data and indicators, helping to save time, cut costs or cover more ground, critical transparency research identifies potential disadvantages, from loss of flexibility (Jordan & Messner, 2012) to new types of visibility and concealment (Strathern, 2000). These cautions are particularly appropriate when it comes to experts and non-experts in markets and their valuation and evaluation methods. Problems can arise if usage differs significantly among the different groups (Coleman & Eccles, 1998; Margolis, 1996), or if more narrow indicators are misleading, such as when past prices provide benchmarks that require consideration of important qualitative factors (Beunza & Garud, 2007; Tan, 2014). When it comes to valuation, differences could be more extreme if key factors remain difficult for non-experts to understand while past prices are made more accessible. Unpacking the necessary elements of full valuation would be one way to see how “thin” data and incomplete indicators compare, for example, when such indicators can substitute for expertise.

The fine art market provides an empirical context to see the impacts of increasing past price data in a market for difficult-to-value objects. Art market information services such as artnet have become important new institutions, disseminating previously elusive information about past prices of artwork at auction (Pardo-Guerra, 2011). While there is presently no way to automatically appraise an artwork online, past price data can provide users with a useful ballpark impression of value, allowing us to see how buyers and experts use auction price data. Underlying this development is a quest for numbers from within the traditional art market, a complex, opaque area with routine valuation. Demand for market information is also driven by a growing movement to establish artwork as a financial investment category, one that complies with financial market norms, such as the transparency and accountability demanded by investors (Coslor & Spaenjers, 2013). Traditional valuation methods in the art market are similar to those used in securities analysis (Beunza & Garud, 2007) and for valuing unique assets (Lepinay & Callon, 2009) or “singularities” (Karpik, 2010) because the past price data is only one element in a “thick,” multi-factor valuation method. Representing some 50-60% of sales, past prices at auction factor strongly into traditional valuation needs, as art is valued on the basis of comparable prices, mediated by factors
including provenance and condition (Robertson, 2005; Velthuis, 2004, 2005). As will be explained further, the uniqueness attributes of fine art and inefficient market mean realized auction prices are not the same as “market prices.”

This paper focuses on the pressures of transparency in the face of growing auction price data in the fine art market, undertaken within a larger project on the financialization of art. Through inductive ethnographic research on the high-end art market in New York and London from 2007 to 2009, I found that past prices provided by art market information services factored into valuation, as would be expected given traditional valuation methods. What is interesting is the way that expert (gallerist, market consultant, etc.) and buyer assessment strategies diverged, with buyers relying more heavily on auction price data, a problematic result given non-price factors, price dispersion and multiple prices. With growing auction price data heralded to increase transparency, the findings (1) deconstruct the factors of supply, demand and multiple prices in the art market, and (2) unpack the operations of “thick” valuation necessary to account for these complexities, where experts transform past prices into comparables and then valuations in a multi-stage process. The findings also (3) highlight the benefits and potential problems of more accessible auction price data, from increased buyer power to overreliance on “thin” price data, the latter furthering our understanding of the interrelationships between metrics and taste. This contributes a nuanced empirical understandings of valuation in an inefficient markets with multiple prices, highlighting the way that evaluative frictions between buyers and sellers can arise from increased price data alone, even without clearly defined alternative valuation methods. This shows the benefits of further dialogue between the critical transparency and emergent social studies of valuation and evaluation research.

1. Transparency and Valuation

Transparency is defined as the ability to know market prices, supply and demand, and other features of a trade good (Law & Smullen, 2008), often with goals of market fairness and efficiency. Information asymmetry is a common explanation for benefits of transparency: if sellers know considerably more about the properties of their goods, buyers gain from more accessible market information, such as price data or
“blue book” values. Though transparency is seen to have positive outcomes, it is also a complicated goal. Transparency efforts can unearth market complexity and have paradoxical outcomes, including decreased market liquidity, price volatility (Madhavan et al., 2005), and opposition to perceived loss of strategic trading advantage (Goltz & Schröder, 2010). As noted in the critical transparency research (Best, 2005; Henriques, 2007; Roberts, 2009; Strathern, 2000), transparency can be seen as a problematic form of accountability (Roberts, 2009), calling into question the ability to create reporting measures that could summarize complex and detailed information without compression issues (Stone, 2002; Vollmer, 2007) and perhaps leading us in problematic directions through the use of convenient but narrow measures (Strathern, 2000). These concerns also align with calls for further research into imperfect markets when it comes to fair value accounting (Bromwich, 2007; Power, 2010), such as issues of market complexity, multiple prices and measure reliability.

Critical transparency work has much to say when it comes to the problem of difficult-to-value goods, which complements growing work in the social studies of valuation and evaluation (Espeland & Sauder, 2007; Fourcade, 2011; Karpik, 2010; Lamont, 2012; Vollmer et al., 2009; Zuckerman, 2012). This work provides nuanced understandings of calculation, valuation and evaluation as individuals, organizations and markets are subjected to new forms of numerical measurement, evaluation and audit (n.b. Power, 1999). For example, Lamont’s review of the sociology of valuation highlights key sub-processes, including categorization, legitimation and “(e)valuation,” and notes the need for additional work in this area (Lamont, 2012). Other researchers note valuation opportunism and entrepreneurship (Zuckerman, 2012). One important point to consider in valuation is issues of taste (Hennion, 2004), and the “attachments” that shape valuation in a significant way, for example, the “collective that provides a frame” for one’s taste (Hennion, 2015, p. 137). From this, we can see how taste can be understood as reliant upon communities, material devices, and other components of attachments that “redefine and reconfigure taste by their own elaborations” (Hennion, 2004, p. 137). This diverse area is also highly compatible with understanding accounting as a situated calculative practice (Chapman et al., 2009).

Empirical case research in particular has the potential to unearth rich, on-the-ground understandings, for
example, important cultural implications surrounding the techniques chosen for valuation (Fourcade, 2011), challenging the neutrality of calculations, as key factors that are not easily quantified are often neglected in models (Stone, 2002). Market knowledge is not always easily compressed: knowledge may be qualitative, longitudinal, or difficult to interpret without expert knowledge, particularly in situations of unique goods (Cattani et al., 2013) or “singularities” (Karpik, 2010), relating to data compression issues of upkeying, downkeying (Vollmer, 2007) and the combinability of inscriptions (Robson, 1992).

In contrast to the “thick” valuation strategies commonly used to deal with singularities we find “thin” data and incomplete indicators, like a blue book of car values or a limited sample of market data. Incomplete and “thin” data can offer advantages of convenience, speed, access and breadth of information, which can stimulate usage even in highly complex valuation situations. It is certainly common to prefer numerical techniques over qualitative methods (Robson, 1992; Stone, 2002; Strathern, 2000), and incomplete or imperfect indicators are not necessarily problematic in practice, as users may have a “pragmatic attitude” toward incomplete information (Dambrin & Robson, 2011; Jordan & Messner, 2012; Power, 2007). Problems are likely to occur if usage differs significantly among different groups, such as buyers and sellers, as we know that experts and the public evaluate information differently (Margolis, 1996) and uses of information can also vary: financial analysts and investors have been found to differ in their use of corporate information (Coleman & Eccles, 1998). In contrast to “thin” data and indicators offering reduced time and cost of estimation are the more accurate, nuanced and expensive operations comprising thick valuation, often seen for difficult-to-value goods. Sociological work in this area notes multi-stage methods for valuing singularities (Karpik, 2010), reconciling conflicts in orders of worth (Boltanski & Thévenot, 2006), and expert techniques such as “qalculate” (Callon & Law, 2005). The latter is a particularly useful concept for complex valuation, as it entails an assemblage of “quantitative methods, qualitative procedures, professional judgments, and the tinkering of daily practice” (p. 731), and broadens notions of calculation to include judgment along with material and social effort (p. 718). A key part of thick valuation is the way that disparate types of information are aggregated together, for example, financial analysts always complement quantitative information with qualitative
information (Tan, 2014), and both qualitative and quantitative means are used to calculate complex financial derivatives (Lepinay & Callon, 2009). Techniques like comparables are used by financial analysts in order to incorporate significant qualitative information without overlooking key contextual information (Beunza & Garud, 2007). Further investigation of expert valuation practices is important because increased availability of price data or other indicators would seem to make experts unnecessary in various situations, especially if outcomes are similar. To investigate this further, we might examine valuation strategies in an empirical context with difficult-to-value objects.

2. Research Context: The Fine Art Market

These findings are one emergent theme from a larger project on the growth of art as a new financial investment category. Although investment is only one motivation for purchasing art, along with consumption, social value, and other factors (Belk, 1995; Hutter & Throsby, 2007), this development is understandably associated with concerns about market transparency and accountability, such as due diligence and other financial market expectations. We also find ongoing interest in increased market information from buyers, sellers, gallerists, museums, tax collectors, insurers and other actors. The problem of gathering systematic data, particularly from galleries, is well known in this opaque market where even today high-end galleries do not post current prices and tend not to reveal past prices either (Moulin, 1987; Plattner, 1996, 1998). On top of hidden dealer prices, there may exist variable prices for different buyers, rather than a single fixed price, i.e. price dispersion (Plattner, 1996). Moulin’s research on the French art market found a variety of prices circulating for the same contemporary artwork: one for a museum, another for collectors, and a high figure to be “leaked to journalists for publicity purposes” (Moulin, 1987, p. 138). As a consequence, even vigorous efforts to gain pricing data in this area—an important part of the market—may be stymied. For example, in his book The $12 Million Stuffed Shark, author Don Thompson (2008, pp. 2-4) noted his inability to find out the exact sales price of a Damien Hirst sculpture, The Physical Impossibility of Death in the Mind of Someone Living, which had been sold to hedge fund manager Steve Cohen by the Gagosian Gallery. Despite several years of research,
Thompson was only able to gain a ballpark figure for the actual sales price, highlighting the market features that have made new data providers with auction price databases a welcome source of information, particularly for new buyers and investors.

The growth of art market information providers over the last few decades follows patterns of data consolidation seen in other industries. Providers including artnet, ArtPrice and Art Market Research have facilitated greater art market knowledge, along with art advisors and consultants. While hammer prices for artworks sold at auction have been available in book form for well over a hundred years (e.g. Bénézit, 1911), over time, data offerings have become more rapidly updated, comprehensive, and richer, developments that can be contextualized within a wider landscape of market information. Today’s information providers grew from both historical book publishers and newer entrants; successful firms innovated both technologically—seen with the transition from book to CD-ROM of Hislop’s Art Sales Index in the late 1980s—and through consolidation of worldwide auction price information. Artnet and ArtPrice could be considered the Bloomberg and Reuters of the art market, hosting comprehensive auction price data, aggregated trends and market reports. Though providers offer news coverage (e.g. ArtINFO), annual industry reports (ArtPrice, Skates) and differentiating features including online auctions (artnet), at their heart is a subscription-based service providing auction prices: the core “price database.” This key dataset is a fine-grained, frequently updated service providing worldwide auction sales data. Each individual listing includes the final hammer price of an artwork together with information such as the artist, size, medium, genre, creation date, sales date and venue, pre-sale estimate, and perhaps other features of the work or artist, usually with a high-quality image. Looking through past prices by the same or similar artists can help to give a sense of the value of an artwork in this thin market, although a scattering of past prices is a far cry from either stock prices or the “online valuations” in other industries, such as Zillow estimates for houses.
Auction Prices vs. Appraisal

Enhanced access to price information is also desirable due to the traditional reliance on auction prices as a foundation for valuation. Originally this would have involved the use of auction price books like the Bénézit or the Art Sales Index CD-ROMs, and may still need reference to these and other materials to establish provenance or assess demand factors. For example, the US IRS requires an official appraisal of all artworks valued over $50,000, with evidence supporting the appraiser’s estimate of the fair market value, such as the provenance (ownership, fairs and exhibitions), past sales history, and other details:

The appraisal of each work should provide the basis or reasoning as to how the appraiser arrived at the individual appraised value. Individual comparable sales should be included… analyzed in terms of quality, etc. and discussed as to how they relate to the subject property. The item discussion should include commentary regarding any special conditions or circumstances about the property, and a discussion of the quality or importance of the property in relation to other works of art by the same artist, and of the state of the art market at the time of valuation. Whenever possible, statements should be supported with factual evidence. Note: It is understood that complete information will not be readily available in every case. However, the validity of the appraiser’s valuation is enhanced and the IRS’s appraisal review facilitated by complete and accurate information (Internal Revenue Service, 2011).

As IRS notes, historical auction prices are insufficient for full valuation of an artwork, but contribute important substantiating evidence. In recognizing the goal of full and accurate information as difficult, the statement underscores valuation as complicated even for professional appraisers.

The IRS guidance highlights the fact that transparency is a somewhat paradoxical request in a market where appraisal is difficult and an artwork’s value is derived more from social construction than objective physical characteristics (Plattner, 1996). Unlike diamonds, which can usually be valued on four key factors, the valuation of art relates to complex quality schema (Podolny & Hsu, 2003). In addition to
both shifting tastes and shifting evaluation methods over time (Hennion, 2004), given the subjective
nature of fine art and complicated valuation features, it can be difficult even for serious buyers to tell if
they are getting a reasonable price. This is complicated by potential price differences among sellers and
regions (Bryan, 1985), and in price dispersion, with sellers charging different prices for different buyers.
We might think of this as a case of a multiplicity of prices (Bromwich, 2007).

One might also ask about the role of critics in valuation and appraisal. Art critics, like cultural
critics (Shrum, 1991), and wine critics (Hennion, 2015) are shapers of taste who can draw attention to
new works, and evaluate them using subjective taste, experience, broader historical developments and
other factors. Despite longstanding critical traditions (Plattner, 1996, 2000; Velthuis, 2005), art critics are
not the same as the appraisers and gallerists who might systematically estimate current or future market
value, providing a different kind of data about the market, with “hard numbers.” Art criticism, meaning
“pronouncements about art quality by elite connoisseurs” has in fact lost credibility in estimating
investment value, due to modern art styles that were “initially disparaged by experts [but] came to have
very high critical and economic success” (Plattner, 2000, p. 122). Today’s art critics are thus more similar
to food critics than to financial market analysts, providing context to an appraisal, and potentially building
“the careers (and markets) of favored artists” (Plattner, 2000, p. 123). Critics thus form a key part of the
apparatus of taste and aesthetic judgment, or what Hennion calls attachments (2004), while new market
information providers align with an apparatus of monetary appraisal.

Information Market Drivers: Valuation, Investment and Continuing Market Opacity

It is clear that greater market information is desirable for many art market participants, including
appraisers, insurance companies and collectors, because this expands upon existing valuation practices.
Indeed, the users of artnet’s price database were diverse, with a bulk of users being auction houses and
galleries, then a large segment coming from appraisers, appraisal societies, banks and insurance
companies, along with government services, the IRS, Inland Revenue [HMRC] and other nation’s
services who were “assessing, for tax purposes, prices of art.” Universities and museums were also a large
group, along with private collectors, art advisors and art libraries. “Anyone, really, with an interest in art pricing” (Amy King interview, artnet). Among these diverse users, the explicit need for objectively calculated numbers is easy to understand when we consider the interest in art as a financial investment, where transparency and accountability are not just helpful, but required. For example, when the British Rail Pension Fund invested in art and antiques in the 1970s, statistician Jeremy Eckstein was brought in to provide “hard” numbers about the investment. “I suspect there was a certain amount of frustration on behalf of the British Rail people,” Eckstein later recalled, “who were getting soft answers for hard questions.” At British Rail’s request, Eckstein was recruited by Sotheby’s to become one of the early members of an industry-based effort to quantitatively study the art market (Eckstein interview). While Eckstein was able to advise the British Rail Pension Fund with expert appraisals from inside one of the world’s top auction houses, very few people have had this privileged level of access. So in addition to serving existing needs in appraisal, the access to art market information provided by the current range of auction price and data services also represents widening access to market knowledge. For example, ArtPrice “offers complementary services that make the art market more transparent and accessible to all” (ArtPrice, 2010a).

Despite the explosion of information created and aggregated by art market information providers, the market continues to be highly opaque in terms of private, undisclosed sales. This relates to market structure, where primary market (i.e. first-time) sales are dominated by galleries, and will be private (see Velthuis, 2005), while in the secondary market, sales are conducted by galleries, dealers, auction houses and other intermediaries, but only auction sales prices will be accessible. In contrast to auction prices, there is no systematic external source of private sales data, although services like BaerFax and ArtTactic’s sentiment index provide a window into this area. Private exchanges between individuals, galleries, dealers and art consultants represent some 60 percent of art market sales (art fund representative interview, 2007),

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2 Interview with Amy King, Vice President of the artnet Price Database at the time, 2009.
in addition to auction houses selling by private treaty (King interview). While gallerists and art world
insiders might learn about exchanges and perhaps the prices, this information is secondhand and
unverifiable. Moreover, the relationship between auction prices and private sales prices is unclear:
research has found auction prices to be higher than gallery prices (Smith, 1989), as well as the reverse
(Velthuis, 2005). The relationship is difficult to test quantitatively because private gallery prices mean
that systematic gallery-side data are hard to gather and unlikely to be comprehensive, although there have
been creative attempts (e.g. Hutter et al., 2007). Nonetheless, movements in these parts of the market are
still important in terms of valuation, as seen in the IRS directive.

Assessing present market value is difficult enough without trying to factor in private sales
relevant for assessing supply and demand of unique artworks, which can require the help of the artist’s
primary gallery, which would have knowledge of private transactions (ADAA, 2007). Assessing future
(investment) value, i.e. which works will hold or increase in worth over time, is a task whose difficulty
goes above and beyond the common tasks of current market appraisal and insurance valuation. Past
auction prices provide some insight into future value, but the considerable research on the investment
value of artworks highlights a variety of concerns, including unpredictable shocks and representativeness,
given that major auction houses focus on well-known works from the highest end of the market (Plattner,
1996). Inferior works or those auctioneers believe will not sell are filtered out, creating a selection bias
toward artworks that have held value over time (Frey & Pommerehne, 1989). This issue is compounded
by the fact that another form of artistic success, museum donations, take recognized works out of
circulation, and out of the auction sales dataset, a challenging issue for the robust research on investment
returns from finance and economics, not to mention average holding times of 19 years or more
(Robertson, 2005). Moreover, investment value is a future-oriented attribute, and thus subject to
unpredictable shifts in taste and fashion (Yogev, 2010). Famous artworks “have constantly changed
meaning, shape, place, and direction throughout history, along with the judgments on them” (Hennion,
2004, p. 133).
3. Qualitative Data, Methods and Analytical Integration

This paper draws from a corpus of data developed during three years of ethnographic research (2007-2009) on the fine art market and use of art as a financial investment, including five months of fieldwork in London and eight months in New York, interviews and secondary sources (Table 1). The primary interviews were focused on actors in New York and London, selected because in addition to being centers of the global financial market, London and New York are hubs of the global art auction trade (Watson, 1992), allowing a focus on the impact of new technologies and practices in dominant markets. Practices between New York and London were also quite similar. On top of auction houses and galleries with locations in both cities, there is considerable movement across the Atlantic. Americans train in London, British gallerists work in New York. Experts and collectors travel to global art fairs.

Interviews included members of both the traditional art world (e.g. artists and gallerists) as well as those involved in art investment and finance. Secondary interview data came from the examination of 25 Master of Art Business dissertations at the Sotheby’s Institute of Art, London, which included 14 full interviews and 30 partial interviews. Particularly valuable were dissertations such as that of Loring Randolph (2005), now director of the Casey Kaplan gallery in New York. An inductive ethnographic methodology using cultural anthropology techniques (Bernard, 1988) was chosen due to known difficulties in collecting systematic gallery price data. Geographic concentration of the high-end art market in major cities required multi-sited ethnography methods (Marcus, 1995), also proving helpful for contacting high-prestige, difficult-to-access subjects (Odendahl & Shaw, 2002). Notes from interviews and ethnographic observation were written up and coded for themes and content aiming for saturation and theory emergence. Ongoing, iterative analysis focused on theme-building, starting with the structure, processes and culture of the market, and incorporated secondary sources. Another goal was to trace what visible auction prices “do,” a finding that formed the basis of the theoretical model. Additional coding and

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4 I am grateful for permission to use Randolph’s work.
reanalysis of key codes traced how themes and codes fit together as a whole (Bernard, 1988; Richards, 2005). Additional details about the wider study can be found in my prior work (e.g. Coslor, 2011), including a rough typology of different buyers, gallerists, and investors, traditional resistance to art as investment (Coslor, 2010; Velthuis & Coslor, 2012) and the growth of professional investors (Coslor & Spaenjers, 2013).

*** TABLE 1 ABOUT HERE ***

Building on the initial theme of visible prices, which incorporated topics of market transparency and gallery vs. auction prices, the paper highlights six key features related to valuation that emerged from the data and were clarified through reanalysis (Table 2). To this end, the paper primarily focuses on experts (consultants, information providers, art dealers) and individual art buyers, some with investment motives. With increased auction price information, it becomes easier to look up past prices, which can be used for valuation. But in contrast to the rich factors necessary for expert valuation (Section 4.2), as we see in Sections 4.3 and 4.4, buyers often assume that visible auction prices comprise the primary data about the market for a given artist, creating misplaced assumptions about valuation and market transparency. With auction volatility and other multiple price issues (Section 4.5), we also find experts negotiating abnormal price benchmarks (Section 4.6).

*** TABLE 2 ABOUT HERE ***

4. EMPIRICAL FINDINGS

4.1. Auction Prices and the Quest for Transparency

It is useful to question what transparency meant for participants in the art market. Given the opacity of the market, providers had a goal of shedding light into the area, for example, ArtPrice’s Art Market Insight,
featuring the “mechanisms and secrets of the art auction market revealed by our press agency” (ArtPrice, 2010b). This represented a considerable shift, as art buyers were previously highly reliant on trusted art dealers (interview with art market information provider representative, London, 2007), and solved the problem of information asymmetry with strong ties to dealers (Plattner, 1996).

The articulated goal of the art information services was to give buyers, particularly newcomers, better context and information about the market, irrespective of whether users were interested in art as a financial investment. As an interviewee pointed out, this was essential information for judging value, though of course it was not complete information, as seen in their response to the question, ‘what types of research do you do?’

[We’re looking at] prices, how quickly some emerging artists have reached the market. Is this sustainable? Is the artist being shown? What is their track record? We’re looking at how tastes are formed by marketplaces and there is a danger of thinking that quality equals price. We’re deciphering or decoding a market that is pretty non-transparent. How do artists end up where? It’s an insider’s market, but more people are coming in, and we want to give people the right information. We want this to be a complementary tool to [one’s] taste and liking the piece, rather than just personal opinion and that of the dealer. There are changes due to new buyers. Knowing value requires both the financial and the aesthetic (art market information provider representative).

Providing more sophisticated market context was thus one of the goals of the art information services, a “complementary tool” that would help decision-making, outside of personal taste and dealer estimates. This could help decipher the market for subscribers with additional information like an artist’s “track record” of sales and exhibitions, and perhaps reduce reliance upon art dealers and other experts. This growth in data was helpful because now buyers would be more informed about prices, which was especially useful for potential investors, according to artnet’s Amy King:

Well, obviously if you want to think of art as an investment, you need to know how much you should be paying for something. The [artnet] database has been instrumental in not
only bringing price transparency to the market, but in helping people to compare works of art and what their prices have achieved, so that they know [this information] when they’re looking at an item, and [the] approximate range… If they’re thinking of it very much as an investment, where they should be, where they should stop.

This information helped buyers to know if they were getting a good deal: now they would not necessarily be so reliant on the personal guarantee of the gallerist, as they could look at comparable works and realized prices. Information providers thus externalized some information relevant to the transaction, allowing the buyer to understand the context of price levels, a contribution to information and decision-making. This was especially useful for investors, who needed “hard numbers” to avoid overpaying, to calculate potential investment returns and when seeking out bargains.

It was primarily those in the business of information provision or interested in art investment who seemed to have these concerns about transparency as a concept, perhaps due to the importing of the concept from other financial markets. As Randall Willette, CEO of Fine Art Wealth Management, an art advisory firm in London pointed out, the issue of market transparency had been a significant problem for professional investors but, he argued, the growth in data was promising.

I think transparency has been one of the biggest problems with the art market historically, which has been one of the reasons why there hasn’t been – you know it hasn’t been a very efficient market… So I think with greater transparency, with greater research, obviously more public reporting of auction sales data, all of that, I think, has helped to create a more transparent market (Willette interview, 2008).

Willette saw greater transparency and market efficiency as linked trends, a point that the Sotheby’s art business students also recognized in their dissertations:

Above all, the art market is going through a revolution. As it becomes increasingly transparent, information is becoming available at the touch of a button. However, the market is still inefficient in every sense of the word. There are many risks involved in
investing in art and if there weren’t then it would not be half as interesting (Saywell, 2004, p. 46).

The art market was still economically inefficient and risky, a bonus for some groups. But overall, more information was seen as better because of fairness and other considerations, given the context of these difficult-to-value objects and the opaque market, particularly for those with investment interests and due diligence needs. This was also a business opportunity for market information providers. Additional information would seem like a reasonable goal, particularly in a market that is opaque and items are difficult to value, even if this was not complete information needed for a full appraisal.

4.2. Expert Valuation: Comparables, Context and Non-Price Factors

Given the complicated relationship between price and appraisal, it was interesting to see how the art market experts thought about valuation in the context of growing auction price information. Valuation is a difficult process in the art market, as it depends on interrelated factors, including external evaluations of the artist’s significance, movements in the artist’s career, and demand factors such as the shifting tastes of buyers and key tastemakers (Hennion, 2004; Karpik, 2010; Robertson, 2005; Velthuis, 2004, 2005). Guidance on this complicated issue is provided to art buyers in an Art Dealer’s Association of America (ADAA, 2007, p. 11) pamphlet collected during fieldwork. Under the heading “What to Look For in a Work of Art,” the guide indicates that “The key issues to consider when weighing a potential purchase are authenticity, quality, rarity, condition, provenance and value. No one of these points is sufficient to warrant overlooking the others.” This was put another way by a gallerist, who was also an appraiser:

People see a price and they’ll be like ‘oh, I saw that this one sold for two hundred thousand, mine can [gain that price].’ And I’ll say ‘no, that came from the collection of Agnes Gunn. No one knows who you are.’ The provenance and the tastemakers [both matter] (Washington D.C. gallerist).

This rich understanding of the valuation factors—including links to key tastemakers noted by this gallerist—was seen throughout the data, such as a Sotheby’s dissertation noting that “condition is one of
the prime requirements to fetching a good price at auction... Other requirements include its provenance, art historical and cultural importance, scholarly value and its supply” (Osman, 2006, p. 12).

What did this diverse set of factors mean for market transparency? Art market insiders in the ethnographic dataset (gallerists, consultants, information providers), had a multifaceted concept of what might be needed for true market transparency, noting that auction price data was necessary but insufficient information. As Amy King of artnet pointed out, neither gallery sale prices nor auction prices should be considered complete information about an artwork.

About 40% of our galleries list prices, those are asking prices. So asking prices are available. [For art investment] ...galleries publishing their sale prices are one of the things that are most necessary for the further transparency, but [so is] an understanding of what the value of a work of art truly is. By having only the auction prices, you have a partial picture, but it certainly isn’t the entire picture in terms of value.

Art market insiders like King realized that auction prices were not comprehensive, and had to be interpreted in conjunction with other factors to truly understand the value of artwork, e.g. art historical significance. Auction prices provided one type of data point, with potential comparables, but this required contextualization. For example, according to the ADAA guide, assessing quality required expert judgment:

Judgments of quality depend on knowledge and connoisseurship. ADAA dealers are skilled at assessing the relative aesthetic merits of a given work, evaluating it both within the larger context of art history and within the specific context of the artist’s oeuvre.

(ADAA, 2007, p. 11)

The relevant qualitative factors, such as the art historical progression and oeuvre—the artist’s full body of work—point to a level of expertise needed to appropriately contextualize past auction price information. Of course the ADAA also took the opportunity to highlight the expertise of its gallerist members, but it is fair to say that expertise would be needed to locate an artist in art historical trends as well as to understand a specific artwork within the artist’s corpus of work.
Appraisal and valuation were also closely linked to the historical ownership of the artworks. This unique history helped to establish authenticity, factoring into valuation. This was seen in the comments of a gallerist specializing in modern artworks, who displayed the provenance on price cards for buyers:

It’s important for people to know—especially for those of us who deal with historically based work… [that it has a history], that it’s authentic, that it’s been seen in solo shows, in group shows, in other exhibitions, catalogues, like this. [He shows me one such exhibition book from the shelf, pointing to the list of provenance.] You need to see the provenance, the history of the work. …People want to know where the picture has been, because the temptation is that when works suddenly acquire value, the temptation is to think they’re forged. This [provenance] reinforces the authenticity of the work, which is really important, especially for outsider art or naïve art. …The provenance that gets missed is the auction history. They might list ‘sold at Christie’s’ or Sotheby’s, if there’s nothing else, and not list the price, and hope that it was long enough ago [to establish this record]. And to some extent, that’s irrelevant (London gallerist, interviewed at the London Art Fair, 2009).

As this gallerist noted, provenance and authenticity were key attributes, including the auction history. Past auction prices could be important to the current estimated value, or irrelevant.

Artwork uniqueness and the related problem of limited or non-existent reference data were additional concerns, particularly for investment interests. As described in Collier’s Sotheby’s dissertation about art as an investment, artwork was unlike traditional investments for this reason.

Particular pieces of artwork may only exchange hands once or twice in a decade. And there may not be any other comparable artworks on the market. This creates a problem for calculating risk and measuring the volatility of artwork (Collier, 2005, p. 52). Although past auction prices were helpful, given the long holding periods of art (Robertson, 2005; Watson, 1992), there might be infrequent sales and few—or even no—comparable artworks that could be
used for valuation, a key issue for thinking about numerical measures for investment. This was one reason why provenance was important, to allow the contextualization of existing prices.

4.3. Thick and Thin Data: Normal Buyers with Limited Data

As opposed to the rich set of data used by experts, who understood the complexity of valuing art and need to weigh and interpret past prices, experts in the dataset saw non-experts drawing from more limited information, namely past sales prices of work by the artist. The comments of a London gallerist speaking about Indian auction houses highlights the problem with this approach: “They [auction houses] have provided a showcase and a certain amount of transparency. However, auction prices are perceived as market prices, which [is] wrong as each work has its own value, not each artist” (quoted in Juneja, 2007).

Certainly these past prices helped to increase information, contributing to a form of transparency, but one that was incomplete without more information. Expertise was needed to correctly contextualize and interpret these prices, otherwise non-experts would be likely to assume that past auction prices were the main determinant of value, as seen in another of the Sotheby’s dissertations.

Second, without being an expert in art’s valuations, an artwork’s monetary value is based only on similar works’ selling prices or previously paid prices for that same work. Since contemporary artworks are unique and not homogenous, like shares of stock, and are being sold on the primary market, the value of contemporary art is often arbitrary. This is why buying emerging or cutting edge contemporary art as an investment is especially ‘risky’ (Randolph, 2005, p. 18).

In making a point about investment risk, Randolph, now a gallery director, highlights the problem of using past prices to estimate future value, particularly in contemporary art, as the uniqueness of each work makes it less helpful to look at past prices for other works by the same artist.

Unfortunately, market information providers themselves were one reason why art buyers might think past auction prices were the primary data of interest, as marketing materials at times oversold the utility of these new forms of data. For example, promising to provide “Fine Art auction information for
you to know the prices of art works, whether you want to buy, sell or insure your artworks, or invest in Art…” (ArtPrice, 2010a). The reality was not quite so simple. We might know past prices, but these were not “market prices.”

Another reason why buyers might focus so strongly on prices was related to carrying one’s existing frames of reference into the art market. This was seen in the comments of a European art banking representative:

…we also see that these people who are not educated in valuating the risks the right way when it comes from the art market. If you ask me if they are willing to speculate, yes, of course. …[But] there are also some people who know completely what they are doing and are aware of the risks etc. (European art banking representative, quoted in Baker, 2007).

This interviewee found some art buyers knowledgeable and aware of the risks, but others were taking a method of evaluating risks from other markets and so not evaluating things “the right way” for the art market. Then again, some market actors believed wealthy new buyers soon became knowledgeable, such as this auction house representative:

I think it’s more because they are new to the field, so therefore their taste has not yet been developed, so in many cases they need a much quicker entrance into the art world, in terms of education and understanding of how the art world, and auction environment works. It doesn’t take very long for collectors to become knowledgeable. Many of these people are finance people so they use that knowledge to understand the process of the art market. The only difference really is that they are new and are developing their tastes. They are coming fresh, so they have an outside perspective, and are much more demanding on price (New York auctioneer, quoted in Baker, 2007).

Buyers were apparently coming from finance and applying that knowledge to the art market, whether it was appropriate or not, and in being demanding on price, show again the price emphasis.
Expertise also mattered in the types of information sources consulted to find past prices. Even though the art market information providers had aggregated considerable price data, and auction houses provided a high level of free information online, gaps were common. This was highlighted by a gallerist who was also an appraiser:

... do you feel like people are looking at those numbers more than they used to?

I think they were looking at it more [before the financial crisis]. A lot of the people can’t look at the artnet numbers because they don’t have [access] – these are the collectors [vs. speculators]... It’s very expensive, the databases are. I use actually 30 different databases. You’re probably surprised that there are 30, but there are [more]... artnet, Gordon’s Art, there’s so many more. I love Gordon’s… But you’d have to look at so many, because not all of them are fully [comprehensive], not all of them have all the auction records… one like Gordon’s doesn’t even have images… So you’ve got to go and look at all of these things (Washington D.C. gallerist).

The comment indicates the diverse sources of price data, with a number of specialist providers for an appraiser to consult for prices, whereas buyers lacked this level of access. This was even without judging other factors like provenance, which might require additional data sources. As the assistant director of a New York gallery specializing in 18th-20th century American Art pointed out, the gallery has to research artworks thoroughly, sometimes consulting sources that are not easily available online. “We’re always running back and forth to the Frick [Library], tracking down some obscure exhibition catalog.”

Assessing provenance was another essential step in valuing artwork and verifying the authenticity of pieces, but it required different information sources from the record of auction prices found in the price databases of providers.

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5 Interview with Helena Grubesic, Assistant Director, Debra Force Fine Art, conducted at the International Fine Art Fair, New York, 2008.
In appraisal, past prices were an essential part of assessing value, but experts saw overreliance on price data by buyers. Experts worried about buyers taking past auction prices as “market prices,” neglecting issues of uniqueness that might change which past prices were deemed comparable. They brought in their familiar frames of reference, such as the quantitative assessments of financial markets, which were not necessarily appropriate for the art market. Even if some experts felt hopeful about buyers quickly becoming knowledgeable and developing their taste, there was clearly a difference between a knowledgeable connoisseur (n.b. Hennion, 2004), and an expert appraiser. Moreover, without full access to past price data, buyers were not just relying on price data, but thin price data at that. It seemed that buyers had a particular method of estimating value, one that was highly reliant on auction price data.

4.4. Auction Prices and Gallery Practices

Increased auction price data also impacted gallery practices, in ways that gallerists found both positive and negative. For example, it generated greater trust in the art market by buyers, and could reduce price dispersion, where different customers are charged different prices.

… Ever since auctions have been putting their sales data online, the market has become more transparent. However, it is not that simple. Even if you had everything available at everyone’s fingertips there is always going to be the specific qualities of a given work; condition, provenance and so on. You have to learn about the market and be involved in it to understand why a work is worth what it is worth. Transparency on the whole is a very good thing. It decreases the level of distrust in the market. I think the only people that are going to suffer are the ‘unscrupulous,’ so to speak, who have been trying to over price things. The art market is like any other market except people need to understand art’s intrinsic values and that can be difficult (Director of a London contemporary art gallery, quoted in Randolph, 2005).

In the view of this gallerist, market transparency was not a simple problem, because auction prices alone did not provide full information. But price information did help to increase buyer trust. Interestingly, this
gallerist also mentioned intrinsic values, perhaps a shorthand for the rich factors necessary for valuation, factors that included condition, provenance and other “attachments” (Hennion, 2015).

Interviewees in this dataset acknowledged that the increase of past price information had both advantages and disadvantages. As the director of a London gallery put it:

Yes, there is this element of transparency so I would agree that mark ups are more difficult. In the contemporary art market now, the more accessible it is the more clients we get. I think it is worth losing the mark up for widening the client base (Director of a London photography gallery, quoted in Randolph, 2005).

These sentiments were echoed by another gallerist, who thought the negative impacts of market information providers were offset by an increase in customer numbers and trust:

If you are going to operate within the system, you have to trust it. Art advisors make things a lot more complicated because they want this cut or a client’s discount, etc… However, I feel that their presence and market transparency is good because it is demonstrating that people want to be intelligently participating in the market (Director of a London gallery specializing in Modern British painting and sculpture, quoted in Randolph, 2005).

Visible auction prices were a double-edged sword, constraining gallerists, but increasing buyer trust in the market. Put into context, as seen in other markets, the previous middleman role performed by gallerists was reduced by greater price information and the competition from auction houses acting as retail sales venues.

Then again, while the use of auction prices as benchmarks might be expected in the secondary market with well-established artists, a paradoxical finding was that primary market gallerists also saw the impact of visible auction prices. For example, a London contemporary dealer interviewed by Adam Lindemann noted the importance of watching the relationship between auction and gallery prices:

You watch [auction prices], consider them, calculate them, participate in them, and then set your primary prices in relation to them. But the one thing you can't do is control the
auctions; they are the predatory beast you cannot tame, because there are always people out there you don't know. It is irresponsible to ignore auction prices because the artist doesn't want to feel they are being undersold in the primary market. So the gap between primary and secondary has to feel comfortable, not ridiculous, in either direction (quoted in Lindemann, 2006, p. 48).

Past auction price information decreased dealer discretion to buy low and sell high, and even impacted first-time pricing in the contemporary sector: gallerists had to consider their own price-setting in context of visible auction prices, a potentially stressful endeavor. A related concern about buyer evaluation methods was described in Davis’ Sotheby’s dissertation:

The current art market is swamped by figures accustomed to trading in other commodities who want the immediate gratification that can come with playing other markets. There is a concentrated effort by these speculators to force the art market to conform to the rigid standards they are used to operating within (Davis, 2005, p. 20).

Buyers were not only using auction prices to understand the value of older, more established works, but also less-established contemporary art. Moreover, some had different expectations about evaluation, “rigid standards” that perhaps did not match the reality of volatile or early-career prices. Gallerists felt they had to watch and respond to visible auction prices, both for buyers and for their artists.

Most gallerists were willing to lose a markup in exchange for additional buyers, but we can also see concerns about how price data was impacting demand itself:

Absolutely, it is a huge problem. I have these people that come in and say that they have been on artnet ‘and I won’t pay more than x for any picture because that is what they sell for at Sotheby’s’ or something. It is very tough, this kind of transparency. I think the way the art market is moving in certain areas which are investment fund-related are dangerous, because the kind of data these people are assimilating for their acquisitions will lead them in a particular direction (Director of a London gallery specializing in Modern British painting and sculpture, quoted in Randolph, 2005).
Auction price transparency was a particular kind of transparency—one that made things difficult because of buyer expectations about auction prices as “market prices” and the strict evaluation seen above. But gallerists were also worried that a strict focus on past prices or investment potential led people toward different types of artwork.

While auction price data was seen as beneficial for buyer trust and creating a form of transparency, the positive effects of visible price data were not universally agreed upon by gallerists. Available auction price information decreased dealer discretion to buy low and sell high. Gallerists were forced to react to more visible auction price numbers, which shaped buyer expectations in ways similar to a blue book value for cars; Downy (2008) even uses the blue book analogy as a joke to frame his discussion of aesthetic vs. financial value, a point that connects to research on auction prices as reference prices and guideposts (Frey & Pommerehne, 1989; Velthuis, 2005). But the comments also highlight gallerists’ feeling that auction price levels do not always have a clear relationship with the valuation of the artwork, and full appreciation of value required provenance, condition and other factors. Visible prices were thus seen as helpful, as well as problematic, with the potential to change buyer expectations about evaluation and perhaps even shifting tastes.

4.5. Fickle and Irrational Forces: Price Dispersion and Volatility of Prices at Auction

The use of past auction prices as reference points was seen as problematic given the need to contextualize these prices with an artwork’s properties and relevant attachments, but auction volatility and price dispersion compounded the problem. Dealers seek sustainable prices, as excessive price rises could lead to subsequent collapses (Velthuis, 2005), whereas the structure of auctions can create volatility (Heath, 2013; Smith, 1989). Given the thin and seasonal art market, auction prices depend on who is in the room or on the phone for a given sale, resulting in a potential for variable realized prices.

There isn’t any clear path to how the art market works. It’s random, but what’s available on any one day and who’s looking to buy at exactly the same time really makes an impact. For example, you could try to sell the same exact piece on April 1 and have a
collector in the [auction sales] room, and on June 1 it will only sell for 1/3 of that price.

And this is because one guy got satisfied on April 1. You have different prices even if the quality is the same (London gallerist, interviewed at the London Art Fair).

Demand could be uneven, but actual auction conditions—number of people, venue, time of year, etc.—could also create price volatility. Art dealers also highlighted situations where auction and gallery prices diverged.

Similarly, the issue of regional price dispersion creating a multiplicity of prices could also be an issue according to gallerists:

I saw for a while that you’d get collectors saying ‘oh, I saw it on artnet for this [price]’ …all of these people that came in, that this was their hobby… kind of a premature speculator. ‘Oh well I already saw one for this [price],’ but you don’t understand that it was at one of the Drouot auction houses in August, in some little county in France. Nobody saw it [for sale]. I didn’t even see it. It’s not like it was at Philips [de Pury] (Washington DC gallerist).

In addition to unique artworks, what the gallerist mentions adds another layer of complexity: in this gallerist’s experience, buyers had mistaken ideas about how the market worked, which made them treat all past auction prices as equally good. But if artwork was sold at an unexpected auction venue, the usual collectors and gallerists—and perhaps even the primary dealer—were unlikely to find out and bid on the item, creating discounts, a benefit of geographic price dispersion (Bryan, 1985). Problematically, this also meant the realized sales price would be below what the painting might realize under normal sales conditions, yet now here it was on the record, setting buyer expectations about price levels.

The variable nature of the auction floor and resulting need to properly evaluate past prices were likewise highlighted in the ADAA collector’s guide:

Auctions have become big business in the last two decades. A vast number of lots in categories ranging from ancient to contemporary flow through the salesrooms each year, and one needs considerable knowledge of the art market to properly evaluate these sales
and their attendant publicity. The press often stresses extreme results—both high and low—when reporting on auctions. However, in order to understand the true significance of a given sales result, one must look at the market as a whole. It is important to recognize that the prices achieved at auction do not necessarily reflect the true fair-market value of the works in question. One can easily overpay at auction, and when selling at auction, one may well end up netting less than by selling through a dealer. For both sellers and buyers, auctions are a gamble in which control is ceded to fickle and sometimes irrational forces (ADAA, 2007, p. 33).

Although this warning about auction houses should be taken with a grain of salt, due to the role of the ADAA in promoting gallery sales, the guidance underscores the volatility of auction prices. Prices needed to be contextualized by looking at the overall market, which again speaks to the work necessary to convert prices into valuations. Art market insiders were used to this volatility at auction, which interestingly paralleled professional financial investors’ familiarity with price volatility. This was even a way for investors to profit through market inefficiency. According to Eckstein, “…everybody is saying that a well-managed fund can outperform [the FTSE trading index]… the lack of transparency – creates opportunities” (Eckstein interview).

4.6. Problematic Benchmarks for Valuation

We have seen how volatile auction prices could be, yet these were a foundation for valuation. Experts contextualized prices using additional information, both about the artwork’s quality and market, and the sales conditions when prices were realized. These dynamics were important to understand why experts like Jeremy Eckstein had problems with using auction prices like a blue book:

…the art world lives on stories… it’s the story that sells it, especially at the high end. At the low end this is not so much the case, particularly when there are multiples and reproductions or mass produced items. For example if you have a silver candlestick you can look it up in a price guide, much like a used car in a blue book. What are the
determinates [of value] there? The mileage, the condition and the registration. I sometimes like to ask provocatively, what’s so special about art? What makes it different from pricing used cars? But the reality is that it is different, it isn’t the same as used cars (Eckstein interview).

Auction prices were not like a “blue book” for cars, according to Eckstein, given uniqueness, “stories” and other determinates of value were difficult to standardize and quantify.

But buyers still might take these as “market prices.” This created an interaction between the volatility and the benchmarking function of auction prices when it came to valuation. The following observation, collected before the onset of the financial crisis, was a telling example of how a “buying frenzy” could distort auction price levels.

[Wealthy individuals] have the financial power to buy whatever they want, [and] many don’t pay attention to previous price structures, they get into a buying frenzy, so the final price may not have any relevance to previous prices, values etc. There is no logic behind that besides people [who] were inspired by the price and [market] activity pursued it. That kind of influence in the market, where you get these huge spikes, is very much to do with the new collectors coming in who don’t care about the price. They have distorted [?] because of their hunger to own and their competitiveness. They then set the new benchmark for the next buyer and in turn they have a major influence on the future price. Also because they are very fashion led, there will be a revival of an artist and they will all buy from that artist. You then get a very fashion led market, and prices go up enormously in a very short period of time, and it’s very much led by this type of buyer (Auction house representative, New York, quoted in Baker, 2007).

This market expert’s concerns with the “fashion-led” market highlight a key problem, one related to auction prices as benchmarks and guideposts (Frey & Pommerehne, 1989; Velthuis, 2003, 2004, 2005). These unpredictable market swings could establish a new set of benchmarks, one with the potential to influence buyer expectations in a self-reinforcing cycle, at least in the short-term. A related tendency that
could distort the benchmarks was that some buyers were liable to overpay at auction, compared to dealer estimates of worth.

I’m not against collectors going to auction or saying we’ll go back to the auction sales just being [for] dealers, but these things change the market, because a gallery has an idea of what they can get for it and a margin, but a private guy doesn’t have a limit. That can really distort the market for judging values for an artist’s worth (London gallerist, interviewed at the London Art Fair, 2009).

This dealer explained how private buyers drove up auction prices, highlighting the difficult issue of “judging values” in the face of the overly high prices, prices that would then factor into later valuations. Whereas gallerists were able to interpret market dynamics leading to realized prices, such as when individual preferences drove auction results: “we can interpret prices, we can put them in context. This one’s crazy, that one only likes pictures that are pink. All those different numbers have personalities, they have different names and situations” (Washington DC gallerist). Gallerists literally know the market: the individuals comprising the thin market and the shaping role of their taste.

The overreliance on prices by new buyers also warranted mention in the ADAA guide, at least if the goal was an art collection that held value over time.

**Value.** Art chosen solely on the basis of price will yield a mediocre collection that does not necessarily hold its value on resale. It is collections formed with passion and intelligence that stand the test of time, both aesthetically and monetarily. Collectors should be wary of apparent bargains and promises of future gains. Although no one can predict the future, ADAA dealers are able to place current values in perspective (ADAA, 2007, p. 12).

While pushing forward the expert skills of ADAA member-dealers, as might be expected, the guide also notes the unpredictability of the art market and complicated nature of value. A collection needs to stand the test of time and expertise was necessary to put “current values in perspective.”
4. Discussion

The findings highlight the complicated role of auction prices in valuation. Information providers with auction price databases and transparency goals made traditional valuation more efficient and provided a reference point for buyers. “Hard numbers” were essential for the accountability and transparency needs of investors and uninformed newcomers, useful to gallerists and curators for appraisal, desired by collectors wanting to buy intelligently and helpful for museums facing accountability rules requiring collection valuations. But in line with the critical transparency literature (Best, 2005; Henriques, 2007; Roberts, 2009; Strathern, 2000), auction prices were also problematic indicators of value, and seen as a partial form of transparency. This leads to three key findings: 1) the use of price data in a market with multiple prices, volatility and difficult-to-value goods; 2) unpacking the nuanced operations required for experts’ thick valuation and how it adjusted for these complexities, and 3) the advantages and disadvantages of thin price data.

_transparency, valuation and multiple prices: deconstructing supply and demand in the art market_

The growth of auction price databases provided a degree of transparency in a context where the determinants of value were complex, a particular kind of transparency (Strathern, 2000), but one beneficial in a market where not all prices are available and objective measures of ‘quality’ are impossible. Market actors noted improvements in transparency and information, that “greater transparency, with greater research, obviously more public reporting of auction sales data… helped to create a more transparent market” (Section 4.1). In linking to ongoing investor concerns about market transparency, market information providers also positioned themselves as essential for new types of users, highlighting the mediating role of accounting (Miller & Power, 2013) in linking to recognized discourses, in this case, due diligence and transparency; interestingly, the market’s inefficiency and lack of transparency were sometimes identified as ways for investors to profit (Section 4.1, 4.5).

Yet auction prices also presented problems, and were recognized by experts as providing a partial form of transparency. For one thing, they were incomplete. Representing 40-50% of sales, gallery prices
were generally not available, and had unclear relationships to auction prices. Even if gallery sales had been available, interviewees found price data incomplete without provenance, condition, taste and other valuation factors. So if price data provided an “element of transparency” (Section 4.4), it certainly wasn’t “the entire picture in terms of value” (Section 4.2). “You need to see the provenance, the history of the work” (Section 4.2) and “the market as a whole” (Section 4.5). These were issues that relate back to the “attachments” necessary for evaluation and tasting (Hennion, 2004, 2015), intersubjective agreement on a set of referents (Lamont, 2012), and the multi-dimensionality of “singularities” (Karpik, 2010).

Prices were also treated with caution by experts due to issues of geographic price dispersion, multiple prices, price secrecy and volatility (Section 4.3, 4.5, 4.6). These factors meant that it was not just the condition, provenance, and other attachments that mattered for interpreting past prices, but also market conditions in which these prices were achieved (Section 4.5). This included sales location, time of year (Section 4.5) or even bids by someone who “[liked] pink” (Section 4.6), meaning auction prices were seen as “fickle” (Section 4.5). The multiple prices issue dovetails with broader concerns for fair value accounting in complex markets, given the violation of market organization assumptions where “all traders face the same prices for the same items” (Bromwich, 2007, p. 58), and relating to reliability issues in valuation (Power, 2010).

**Thick Valuation: Transforming Prices into Comparables and then Valuations**

Auction prices are a traditional factor in valuation, but given the complicated nature of value in the art market and contextual specificity of individual realized prices, expert valuation employed a number of different data sources and operations in order to arrive at a completed appraisal. Market experts integrated realized auction prices, informal market information, and other factors, such as gallery shows or exhibitions, assembling and interpreting data in a qualitative fashion requiring judgment to reconcile disparate information (Boltanski & Thévenot, 2006; Callon & Law, 2005; Karpik, 2010; Velthuis, 2004). The findings nuance our understanding of the operations required for expert valuation. I theorize this in three operations separated for clarity: collection of raw materials, selection and sorting of past prices into
proper comparables, and adjustments used to integrate comparable prices and non-price information into valuations (Figure 1).

***FIGURE 1 ABOUT HERE***

In the first operation: collection, realized prices for similar items were collected, together with information such as the artwork’s provenance, condition, market for similar objects and other “attachments” (Hennion, 2004, 2015), collected from a wide variety of sources. Second, through expertise and judgment, past auction prices for work by the artist and similar artists were sorted to select appropriate “comparable” prices. Sorting might involve discarding prices not aligned with general price levels for an artist, for example outliers due to sales location, condition (Section 4.5) or “buying frenzies” (Section 4.6). Expertise mattered in assessing which prices were comparable, e.g. which works by the artist or in the artistic school were relevant for comparison (Section 4.2). Much like the process of “singularizing” an object to make it calculable, thick valuation requires a linking to other products in the same space, a process of “classification, clustering and sorting that makes products both comparable and different” (Callon & Muniesa, 2005, p. 1235) or valuation in an indexical process (Lamont, 2012). Third, in integration, much like the rules and conventions that “relate a mobile inscription to its context” (Robson, 1992, p. 695), expertise is needed to integrate comparable prices and factor in specifics of the piece and market conditions in order to create a valuation, e.g. that a piece from a noted collection sells for more money (Section 4.2). Raw prices are thus transformed into comparables and then valuations through these interrelated operations.

Examination of expert valuation shows how auction prices should be seen as a type of raw data, rather than a finished valuation. These data played an essential part of making a reasoned case for valuation, together with other evidence, seen in the IRS guidelines requiring discussion of the item’s quality and relationship to specific comparable sales to “provide the basis or reasoning” for an appraised value. Elaboration of the operations used to transform realized prices into valuations also shows why bad benchmark prices (Section 4.6) were a problem: volatility, venue and other contextual factors related to price realization were not immediately obvious from realized prices, creating the potential to “[distort] the
market for judging values for an artist’s worth” (Section 4.6). Navigating these variations required additional work by experts, relating to issues of inscription and data compression (Robson, 1992; Vollmer, 2007).

**The Positives and Negatives of Thin Price Data**

The findings also highlight the benefits of increased auction price data and potential problems. One key benefit was that customers gained in their power relative to dealers and other market experts (Section 4.1). This met buyer interest in market information (e.g. Plattner, 1996), fulfilling provider goals of providing an “approximate range” and a “complementary tool” to one’s taste (Section 4.2). A related impact was decreased dealer profits from information asymmetry, which dealers generally found worthwhile in exchange for increased buyer trust (Section 4.4). Finally, indicators and thin approaches to transparency and performance measurement can be faster, cheaper and cover more ground. So if thick valuation by experts required judgment, context and additional information, this was perhaps excessive in some situations. Auction price data provided a faster, more accessible indicator, connecting to the more pragmatic use of incomplete performance indicators, where flawed and incomplete measures can be effective if used in flexible ways (Dambrin & Robson, 2011; Jordan & Messner, 2012; Power, 2007).

On the other hand, we should also consider the tradeoffs of this incomplete indicator, including accuracy and rigidity. Estimating value using thin auction price data missed other important factors, both in terms of the properties and attachments of the artwork (Section 4.2) and the context in which specific prices were realized (Section 4.5, 4.6). Without being an expert in valuing art, a valuation “was based only on similar works’ selling prices or previously paid prices for that same work” (Section 4.2), missing the sorting and contextualizing operations of expert valuation. Yet experts like gallerists and market advisors found buyers treating auction prices “as market prices” (Section 4.3), particularly new, uneducated buyers. Gallerists noted buyers who had “been on artnet and …won’t pay more than x for any picture because that is what they sell for at Sotheby’s” (Section 4.4), a benefit if it reduced price gouging, but a problem if dealer prices were reasonable once contextualized. This links to the way incomplete
indicators can be used in either flexible or constrained ways (Jordan & Messner, 2012), more general
tendencies to prioritize quantitative information (Robson, 1992; Stone, 2002), and predictable problems
with reliance on a thin indicator for a difficult-to-value items, with forms of transparency making some
features more visible and occluding others (Strathern, 2000). Non-standard factors are not necessarily
obvious from a set of past prices and require sources like “obscure exhibition catalog[s]” (Section 4.3).
This useful thin data thus had a dark side, exacerbated by buyer expectations of an orderly relationship
between prices and quality (Coslor, 2010) and overly optimistic views of the fairness of auctions and
objectivity of auction prices (Heath, 2013; Smith, 1989). This helps to explain why new buyers might
take auction prices as “market prices” (Section 4.3) or assume all past auction prices were equally good
indicators of value (Section 4.5). A more educated approach was to understand auction prices as reference
prices (Frey & Pommerehne, 1989; Velthuis, 2004), similar to a blue book value, i.e. a reasonable proxy
for an item’s value that could be mediated by a few standard attributes. While this understanding came
closer to expert valuation, market experts found it problematic because stories, uniqueness and other non-
standard factors had clear impacts on value (Section 4.6), i.e. the factors are varied and difficult to
systematize.

There also seemed to be a relationship between buyer evaluations of investment potential and
what they preferred to buy, an issue of changing tastes that paralleled preferences for market
transparency. While collector taste was not the focus of this study, it was an issue elaborated by market
experts, if in different ways. While information providers saw auction price data as complementing taste
(Section 4.1), art dealers worried about changing taste and evaluation due to investment interests and data
leading buyers in certain directions (Section 4.4). Investment objectives and visible numbers would
together seem to function as a new apparatus of evaluation that could mutually reconstitute tastes
(Hennion, 2015), although it would require additional research to assess either the extent to which buyer
tastes were changing or the causality.

One might expect this shift to explain the data’s negative tone about buyers relying on auction
price data, particularly by gallerists, a sentiment that would be unsurprising given the traditional art
market’s longstanding resistance to speculation (Velthuis, 2005; Velthuis & Coslor, 2012), together with hostility to buyer empowerment reducing expert power and profits. These sentiments were doubtless at play. But as most gallerists interviewed took a degree of investment motivation as given, if preferring to sell to collectors who loved the artwork, I would also argue for a pragmatic concern about valuation accuracy. This would, for example, explain concerns that relying on thin price data could lead to misplaced buyer expectations, e.g. that buyers “don’t understand” the relevant context for realized prices (Section 4.5) and fads could distort benchmarks for judging worth (Section 4.6). Though it might be difficult to systematize the impact of an item being listed in Sotheby’s key evening sale in New York, or conversely, “one of the Drouot auction houses in August” (Section 4.5), experts believed it was important to keep these factors in mind when thinking about prices, over and above resistance to price data that might empower buyers or encourage speculators.

Contributions

The study illustrates productive connections between the critical transparency literature and social studies of valuation and evaluation research through a focus on expert valuation strategies and the frictions seen with non-expert use of more accessible price data. Studying valuation in the art market shows the importance of understanding the characteristics of a given object, relevant external “attachments” (Hennion, 2004, 2015) and the context in which comparable prices were set, a point that nuances fair value concerns and helps to explain multiple prices. This work shows how critical transparency research (Roberts, 2009; Strathern, 2000) fits well with ongoing valuation concerns, as thin indicators can be productive, shifting power to consumers and providing cheaper or faster options, but can also create frictions, particularly when indicators are used in overly rigid ways or taken as complete in markets where key value determinates are multi-faceted and difficult to assess, relating to ongoing valuation reliability concerns (Power, 2010). In this case, price data becomes a double-edged sword, seeming to provide more complete information than practicable and occasionally disrupting price-setting. This research also underscores how visible numbers can potentially shift tastes in different directions, with the mutual
reconstitution of evaluations and tastes (Hennion, 2004), suggesting the need for additional examination of the complicated relationship between price data and taste. A particularly interesting contribution of this research is that evaluative frictions can arise through accessible price data alone, even without a clearly established alternative method of valuation.

Disentangling the multiple operations of expert valuation also contributes to our understanding of sub-processes in valuation, such as categorization, sorting and aggregation, linking to calls for further research (Lamont, 2012). The evaluative frictions between buyers and experts highlights the need for detailed comparative study of actual practices employed by experts and non-experts, a topic that could further knit together critical transparency and valuation research. At least in the art market, it seems that if experts require multiple operations to transform raw prices into comparables and then valuations, buyers missed these crucial operations and more work is needed to understand their actual practices. It would be productive to question whether such differences hold in situations where there is a directly competing “thin valuation” method, and to elaborate factors that engender competing methods versus a continuum of valuation techniques.
References


## Table 1: Data Inventory for Ethnographic Corpus

<table>
<thead>
<tr>
<th>Data type</th>
<th>Quantity</th>
<th>Original data format</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interviews</td>
<td>33</td>
<td>Written interviews and formal recordings</td>
</tr>
<tr>
<td>Observational data</td>
<td>29 events, including auctions, fairs, gallery openings, and lectures</td>
<td>Field notes: 4 journals of observational notes and on-scene memos</td>
</tr>
<tr>
<td>Event-related documents</td>
<td>10 coded</td>
<td>Documents collected in the course of ethnography, e.g., auction catalogs, fair guides, company documents</td>
</tr>
<tr>
<td>Surveys of attendees at London Art Fair</td>
<td>50</td>
<td>Paper forms</td>
</tr>
<tr>
<td><strong>Secondary data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sotheby’s Institute of Art London MA in Art Business dissertations</td>
<td>25</td>
<td>Dissertations included a total of 14 full and 30 partial interviews</td>
</tr>
<tr>
<td>Videos</td>
<td>3</td>
<td>“America’s Pop Collector,” DVDs of ADAA panel sessions</td>
</tr>
<tr>
<td>Secondary articles</td>
<td>37 core articles</td>
<td>Newspapers, magazines and online research</td>
</tr>
<tr>
<td></td>
<td>Over 100 collected</td>
<td></td>
</tr>
</tbody>
</table>
Table 2. Components of Auction Price Data Theme

<table>
<thead>
<tr>
<th>Element Name</th>
<th>Brief Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Auction Prices and the Quest for Transparency</td>
<td>Articulation of market transparency needs</td>
</tr>
<tr>
<td>II. Expert Valuation: Comparables, Context and Non-Price Factors</td>
<td>Expert valuation methods and the various factors to interpret auction prices (thick data)</td>
</tr>
<tr>
<td>III. Thick and Thin Data: Normal Buyers with Limited Data</td>
<td>Tendencies by non-experts to prioritize price data in valuation (thin data); often limited price data</td>
</tr>
<tr>
<td>IV. Auction Prices and Gallery Practices</td>
<td>How gallerists engaged with visible auction prices and buyer expectations</td>
</tr>
<tr>
<td>V. Fickle and Irrational Forces: Price Dispersion and Volatility of Prices at Auction</td>
<td>Volatile auction prices as an additional confounding factor</td>
</tr>
<tr>
<td>VI. Problematic Benchmarks for Valuation</td>
<td>Auction prices as raw material for valuation and open to distortion</td>
</tr>
</tbody>
</table>
Figure 1. Expert Valuation Operations

**Collection of Raw Materials**
- Past auction prices

**Selection**
- Comparable Prices

**Adjustment**
- Valuation

**Provenance and Artist’s Career Documentation**

**Overall Market Conditions**

**Sub-Processes**
- Tracking down information
- Database access

**Sub-Processes**
- Judgment of work and selection of similar items (comparables)
- Consideration of context in which prices were realized

**Sub-Processes**
- Interpretation of condition, provenance, missing data, etc.
- Integration of informal information (e.g. private sales)
- Integration of current market information