The Review of Austrian Economics, 17:4, 371–386, 2004.

An Interpretive Approach to Meanings of Prices*

OLAV VELTHUIS velthuis@dds.nl
Visiting Scholar, Columbia University, Institute for Social & Economic Research and Policy, Kuinderstraat 27-1, 1079 DJ Amsterdam, The Netherlands

Abstract. Austrian economists have repeatedly argued that the price mechanism is not just an allocative, but also a communicative system: as a solution to the dispersed knowledge problem, prices convey meanings which serve as guideposts to economic action. The analysis of these meanings has been restricted to economic meanings such as profit opportunities and incentives, however. In this paper I show that prices also convey social and cultural meanings. This calls for an interpretive approach, which a younger generation of Austrian economists has advocated. To illustrate, I provide a thick description of price setting on the market for contemporary art. I show that collectors, art dealers, and artists communicate meaningfully via prices about issues such as the quality of artworks or the status hierarchies which structure the art world.

Key Words: Austrian economics, markets, meanings, art market, economic sociology

JEL classification: A14, B52, B53, L11, Z11.

Introduction

One of the characteristics of Austrian economics has been its concern with the meaning of economic processes and entities (Hayek 1945, Lavoie 1990). Kirzner (1992) and Ebeling (1990, 1995), among others, have addressed meanings of prices in particular, as well as the role prices play on the market as vehicles for communication. Steven Horwitz has taken their analysis one step further by drawing an analogy between the price mechanism and a linguistic system (Horwitz 1995). In doing so, these Austrian economists have provided a thorough critique of, as well as a valuable alternative to the limited conception of prices in neoclassical economics.

Meanings of prices are the central theme of this paper. In the first section, I will briefly discuss how these meanings have been addressed in Austrian economics. In the second section, I will argue that the Austrian perspective differs in three respects from a conventional neoclassical perspective and from signaling theory, which emerged out of the economics of information. The Austrian perspective is characterized by its attention for the 'dispersed knowledge problem', by its view on the type of information that is communicated, and by the interpretive approach which a younger generation of Austrian economists has advocated. In the third section, I will argue however that the Austrian perspective does not provide a truly interpretive approach to the price mechanism. The main shortcoming is that meanings

*An earlier version of this paper has been presented at the Southern Economic Association Conference (New Orleans, November 1999), where it was one of the winners of the Graduate Student Paper Competition of the Society for the Development of Austrian Economics.

of prices are unnecessarily restricted to economic meanings. If we want to come to a full-fledged understanding of the price mechanism, and if prices can indeed be read as a text, non-economic meanings need to be included in an interpretive approach. In order to develop such an approach, I borrow from recent work in economic sociology and economic anthropology.

In the fourth section, I will illustrate this approach empirically by means of a case study on the primary art market, that is the market where contemporary artworks are sold for the first time.[1] Although this market may be unconventional because of its thinness and because of the heterogeneity of the product, it is exemplary because it reveals meanings of prices in all their complexities and intricacies. My main finding is that by pricing art, art dealers convey social and cultural meanings to their colleagues, artists and collectors. These meanings do not only refer to profit opportunities or scarcity situations, as Austrian economists argue, but also to the quality of the objects, and to the people who produce and desire them. Impersonal and businesslike as prices seem, they are the numbers artists, collectors and dealers live by (cf. Friedland and Alford 1991). In the fifth and final section, I indicate how my findings deviate from existing signaling theory. In doing so, I restrict my discussion of the empirical findings to the strong taboo on price decreases which characterizes the primary art market.

1. Price Signals in Neoclassical Economics

In neoclassical economics, prices seem to be devoid of meaning at first sight; they are the outcome of the impersonal forces of supply and demand, which are given to economic actors in a situation of perfect competition. Actors "neither offer nor interpret prices, for in the formalized schema the market participants neither communicate nor respond to each other. Rather, they simply, and individually, register the alternative quantities of goods they would be willing to buy or sell along a hypothetical spectrum of higher or lower prices that are both 'given' and given to them", as Ebeling puts it (Ebeling 1990:184). Ebeling concludes that the neoclassical perspective hinders the analysis of market prices on the market and of the way actors respond to them.

It can nevertheless be defended that prices are meaningful within in a conventional neoclassical economic framework: prices coordinate mutual decision making processes by making information available to buyers and sellers. They guide actors on the market, in the words of Kirzner, "to that pattern of attempted activities that permits all of them to be carried out without disappointment and without regret" (Kirzner 1992:143). According to Kirzner's reading of neoclassical economics, this communicative function is confined to equilibrium situations. However, according to neoclassical economists like George Stigler, prices also function as 'reporters' in disequilibrium situations. If for instance a shortage of a certain good exists in a certain community, a rising price will communicate this to producers in other communities. Stigler concludes that prices communicate "innumerable messages on the state of supply and demand for each commodity or service" (Stigler 1987:14).

The communicative function of prices has been treated in more depth within the economics of information, which emerged in the 1970s and grew explosively in the 1980s. Nobel Laureates Michael Spence, George Akerlof and Joseph Stiglitz introduced 'signaling' and related terms like 'screening' and 'efficiency wages' into the analysis of markets where the quality of goods and services is difficult to assess (see Riley 2001). The overarching argument is, in the words of Stiglitz, that "price serves a function in addition to that usually ascribed to it in economic theory: it conveys information and affects behavior" (Stiglitz 1987:3). In particular, prices are used to judge the quality of a good, or, to put it in other words, quality is 'screened' by means of the price level. Stiglitz acknowledges that this may result in the persistence of disequilibrium situations because price changes are interpreted as quality changes. Thus in a situation of excess supply on a labor market, price decreases will sometimes be infeasible because they may signal a lesser quality of labor supply (cf. Stiglitz 1987). This signaling effect is not confined to uninformed parties who lack other sources of information to estimate the quality of goods. Michael Spence, who was one of the first economists to recognize the relevance of signaling in the economy in general, argued that sellers correlate the quality of goods within a product line with the price on the basis of experience. The consequence is that price changes send quality signals to informed, frequent buyers of those goods (Spence 1974).

The communicative function of prices has not only been discussed within the economics of information, but also in Austrian economics. Kirzner, Ebeling, Horwitz and Peter Boettke, to name a few, have stressed that prices not only constitute an allocative mechanism, but also a communicative system. This communicative property enhances coordination of economic action between individuals. As Boettke argues: "[t]he market process solves the problem of economic calculation by generating 'signals' of individuals to orient their behavior to one another" (Boettke 1995:65). The communicative role of prices is most apparent in a disequilibrium context. Whereas according to the Austrian view prices play an active role in the discovery process by spreading information *yet* unknown to actors on the market in a disequilibrium situation, they merely 'summarize' knowledge *already* known in an equilibrium situation according to neoclassical economics. As Ebeling put it: "In an arena of multiple minds, prices are not merely generalized constraints, but a means for communication with others concerning one's own intentions and the reciprocal actions desired from those others in the nexus of exchange. Prices now enter as a potentially coordinating element in the arena of personal relationships. In order to fulfil this role, however, the actors in the market must understand the meanings of others as externalized in the form of ratios of exchange between commodities traded" (Ebeling 1990:184).

2. The Economics of Information vs. the Austrian Perspective

How does the Austrian approach differ from 'conventional' signaling theory? It can be argued that the economics of information in general and signaling theory in particular, is highly indebted to the work of Hayek on the use of knowledge in the economy and on markets as discovery processes (see e.g. Thomsen 1994). Nevertheless, I distinguish three differences between a conventional and an Austrian approach to price signals. The first difference is the centrality of the dispersed knowledge problem. As Hayek has argued throughout his work, the economic problem does not concern scarcity *per se*. Instead, the question is how to allocate given resources in a situation where ends are only known to individual people, and complete collective knowledge of means and ends is lacking: "it is a problem of the utilization of knowledge which is not given to anyone in its totality" (Hayek 1945:78). This *dispersed knowledge* problem presents a major challenge to society: "that of generating flows of information or of signals that might somehow stimulate the revision of initially uncoordinated decisions in the direction of greater mutual coordinatedness", as Kirzner put it (Kirzner 1992:147). In the Austrian view, the communicative function of prices is primarily seen in the context of this general *dispersed knowledge* problem; by contrast, the economics of information is concerned with more specific information problems such as information asymmetry, which concern interaction between individual sellers and buyers on specified markets (cf. Akerlof 1970).

The second, related difference concerns the type of information or knowledge that prices communicate. In the Austrian view, prices do not transmit knowledge per se, but instead function as 'knowledge surrogates.' This means that prices are not sources of information in their own right, but instead summarize existing market conditions. In that capacity, they ensure that actors do not have to engage in costly information collecting activities. Also, they signal profit opportunities to alert entrepreneurs, and incite them to economic action. By contrast, in the economics of information, prices are sources of information in themselves; this information regards some property of goods such as their quality (for an elaboration on this difference, see Thomsen 1994).

The third difference, which the remainder of this paper will be mainly concerned with, is the interpretive approach which a younger generation of Austrian economists advocate (see Lavoie 1990). They argue that prices or price changes in themselves are meaningless, and need to be interpreted as to their meaning (Ebeling 1995:143). In this respect, the price mechanism can be likened to other symbolic systems such as language. Indeed, some Austrian economists have interpreted markets, money and prices in terms of a text (Ebeling 1990, Horwitz 1995). Horwitz has indicated in particular that a monetary system shares properties with a linguistic system. For instance, we use language in daily life and change it by using it, just like "[p]rices both inform human action and are informed by it" (Horwitz 1995:166). Horwitz concludes that "[v]iewing money as language reinforces the notion of the market as a dialogic text" (Horwitz 1995:168). The efficiency of markets would be dependent on this non-verbal language of a monetary system.

3. Towards an Interpretive Approach

By drawing an analogy between the price mechanism and a linguistic system, Austrian economics has opened up the road for alternative methods to study economic phenomena. In line with the interpretive approach, some Austrian economists have advocated a truly social scientific approach to prices. Ebeling has argued for instance that in order to see price as a social means, "[t]he economist must now truly become a *social* scientist. He can achieve this, not by super-imposing his established method of analysis on other disciplines, but rather by inquiring into the methods of those other disciplines to see what useful analytical tools have been developed to grapple with problems of understanding *social* action. Social action is by its nature *interpretive* action, and therefore its analysis requires the methods that have been developed in other social disciplines for understanding the processes through which individuals interpret one another's meanings and actions" (Ebeling 1990:191; emphasis in original).

These promises regarding an interpretive, social scientific approach to prices are not lived up to, however. Instead, the meanings which prices convey in an Austrian economic framework are limited to strictly economic meanings. The tendency to restrict meanings to economic meanings is most explicit in the work of Kirzner, who views these meanings in the exclusive terms of "profit opportunities" or economic incentives for "competitive-entrepreneurial entry and discovery" (Kirzner 1992:149–150). My claim is, however, that if we want to come to a full-fledged understanding of the price mechanism, we are in need of an interpretive approach to prices, which *does* acknowledge other meanings than economic ones. Such an approach would recognize that the meanings that prices convey can be related to social and cultural rather than just economic values. If competition is indeed a discovery process, prices may not only reveal profit opportunities, but also information related to the social and cultural context of market transactions or the status and reputation of transaction partners.

In order to develop such an inclusive, interpretive approach to prices, I draw on recent literature in economic sociology and economic anthropology. Although the price mechanism has so far not been high on the agenda of economic sociology nor of economic anthropology (see Velthuis 2003), a few studies have interpreted the price mechanism and monetary systems as explicitly social and cultural, rather than just economic phenomena. Alice Kessler-Harris has argued, for instance, in a study of the historical development of a women's wage, that "[p]opular perceptions of the wage are far richer than the descriptions of economists would imply." At times, prices on the labor market have been conceptualized as "just" or "fair"; women and their opponents furthermore distinguished "family", "living", "luxury" and "necessity" wages (Kessler-Harris 1990:2). Anthropologists Jennifer and Paul Alexander have argued that the very concept of price has different meanings in different economies. On the Indonesian island of Java, for instance, the equivalent of the English word price has the connotation of price range rather than fixed price, while an exact equivalent of the Western concept of 'price' does not exist (Alexander and Alexander 1991). Mitchel Abolafia found in a study of financial markets that "[m]oney is more than just the medium of exchange; it is a measure of one's 'winnings.' It provides an identity that prevails over charisma, physical attractiveness, or sociability as the arbiter of success and power on the bond trading floor" (Abolafia 1996:30). Anthropologist Clifford Geertz argued likewise in his account of Balinese cockfights that money can be "less a measure of utility" than "a symbol of moral import" (Geertz 1973 [1993]:433).[2]

My qualitative research on the market for contemporary art in Amsterdam and New York generated similar results. The approach I take to this market is interpretative in Geertz's sense: it is a thick, fine-comb description of the price mechanism with the help of qualitative methods (Geertz 1973). I conducted 18 semi-structured, in depth interviews with art dealers in Amsterdam, and 19 interviews with art dealers in New York between April 1998 and March 2001.[3] Both to further triangulate and to supplement the data, my research is also based on written material from eclectic sources such as reviews in art magazines, interviews with artists, collectors or gallery owners published in books and magazines, biographies of art dealers, guidebooks to the art market for artists, and court materials.[4] In this paper, my report of the findings will be limited to one of the major anomalies of the primary art market, which is the existence of a strong taboo on price decreases (see Velthuis 2005 for a full account).

4. Social and Cultural Meanings of Prices

In academic literature on the art market, it has been widely recognized that dealers in contemporary art consider outright price decreases infeasible (Moulin 1967 [1987], Plattner 1996, Klein 1994); this phenomenon is also discussed in artist's guides to the market, and it is universally acknowledged by the dealers I interviewed. When I questioned them about price decreases, I received answers like: "a work of art is never decreased in price, never" ($_{\mathrm{US}}$14) or "I have a moral responsibility to maintain the price, a responsibility towards the community I am involved in" ($_{\mathrm{US}}$11). In fact, art dealers and artists seem to behave more like *price* than like *profit* maximizers. In their everyday models of the art market, the concept of price elasticity plays a subordinate role. From an economic perspective this may make sense as far as the negative effect of price decreases on the investment potential of art is concerned. The taboo is puzzling, however, since it inhibits the movement of the market into equilibrium: if lowering prices would really be impossible, the market cannot be cleared in case of excess supply. For sure, there is a rationale to this market practice, albeit not a strictly economic rationale.

I argue that this taboo on decreasing prices can be understood by taking social and cultural meanings of prices into account. My ethnographic material shows that prices are suspended in a web of meanings, of which profit opportunities are only one. This web of meanings relies on mental accounting schemes which are composed of cognitive associations and which connect prices with quality, reputation and status (Thaler 1999). These schemes are established through a process of semiotic socialization. Members of the art world, who have detailed knowledge about prices and pricing conventions, can interpret or 'read' these meanings. Also, they notice deviations, and extract meaning from them. Thus my research builds on the Austrian notion that the price mechanism is not just an allocative system, but also a full-fledged semiotic, symbolic, or communicative system akin to language.

This communicative property is enhanced by the fact that radical uncertainty prevails as far as aesthetic evaluation is concerned: individual actors do not know the value of things, while objective criteria to evaluate the quality of the work are lacking (cf. Smith 1989). In such a situation, prices function, as Boettke puts it, "as 'aids to the human mind' in their capacity as *guideposts to human action* within a complex and uncertain world" (Boettke 1995:65; emphasis added). How does this work?

When setting prices, dealers take into account that collectors infer judgments about the quality of the work from its relative price or from a price change. Contrary to other markets, including those for cultural products such as literature or music, success on the art market is measured in terms of rising prices rather than rising sales. An increase in the price level of an artist's work therefore conveys the message that his career is developing or that his art is being accepted in the art world; simultaneously, it makes collectors feel secure about the acquisitions which they have made in the past or which they intend to make in the future. This property of art markets has been recognized in previous research on art markets. Plattner argued that "[i]n the absence of a well-defined set of rules for judging quality, price and how widely the work is distributed are taken as a signal of excellence" (Plattner 1996:15). In her study of the French art market, Moulin noted similarly that "[g]iven the confusion of values that currently prevails in the world of art, confused buyers who admit their incompetence to make up their minds see high prices as a guarantee of aesthetic quality" (Moulin 1967 [1987]:157).

The positive meanings of increases encourage dealers to be price rather than profit maximizers: since high prices are perceived as a sign of success, dealers and artists have an incentive to actively produce scarcity. This provides a tentative explanation for the fact that galleries, both in the past and in the present, deliberately restrict the number of works they hang in an exhibition (cf. Grampp 1989:86–87), for the fact that even highly successful artists like Mark Rothko, Francis Bacon, or Pablo Picasso left a large number of works when they died, or for the fact that art dealers are eager to restrict the edition size of photographs and prints. All these practices suggest that artists and their dealers are keen on creating scarcity and thus maximizing prices.

The opposite argument applies to price decreases. Price decreases affect more than just the return on investing in art (cf. Frey 1997). In fact, such a direct economic effect was not even mentioned in the interviews I conducted. Instead, dealers were concerned about the meanings that those decreases convey to both artists and collectors. However strong the economic logic of a price decrease may be, by lowering the price an art dealer conveys a message about the worth of an artist's work and thereby affects her self-esteem. Says an *éminence grise* of the New York gallery scene: "[A price decrease] has a caustic reverberation. If the artist goes down, it means the gallery has lost confidence in him, or the collectors have lost confidence, or he lost his audience. Those are the implications, and you must never allow for those implications, because if you continue to exhibit him, it means that you continue to have faith in him. And if you continue to have faith in him, that means you believe that the artist's progress is ongoing. It is injurious to an artist if he finds that he cannot sustain his price level. That is a blow to his self-esteem" ($_{\text{US}}$14). Indeed, even the most reputed dealers I interviewed, representing well known artists who sell works to museums for $100,000 or more, confirmed that prices are a "personality issue", which means that price decreases need to be avoided. They seriously affect the pride of artists.

Price decreases generate comparable meanings for collectors. They create "suspicion in the audience", as one dealer put it; as a result, collectors will "distrust your instincts" and will "lose faith." Given the wording they choose, dealers apparently consider the collector's appraisal of art to be fragile. If the collectors' belief in the artistic value of the work is harmed because of a price decrease, the consequences can be dramatic (for similar findings related to singers, see Towse 1992:213–214). One dealer said that "if [the price] is going down, they will start asking what's wrong with it. That can have a huge backlash and can destroy a career at the beginning" ($_{\text{US}}$8). Another dealer confirmed with regret that "[y]ou drop the artist, because you cannot drop the price" ($_{\text{US}}$19). Art dealers are particularly reluctant to decrease prices since they expect that information about such decreases spreads fast in the art world.

The dramatic consequences of price decreases on the collector's appraisal, combined with the effect they have on the artist's self esteem, urge art dealers to start pricing low, even lower than the expected market clearing price. Cultural economists have argued that dealers 'underprice' artworks since it is difficult to attract the one buyer willing to pay the exact equilibrium price on a thin market like the art market (see e.g. Heilbrun and Gray 1993:153).[5] The alternative explanation which my interviews suggest is that the taboo on decreasing prices generates an incentive for galleries to underprice from the outset, and subsequently increase prices only cautiously.

Nevertheless, in the unfortunate circumstance that prices that are higher than the market 'bears', several emergency methods exist to decrease prices less visibly, that is without sending the negative price signal. First of all, the size of the work which the artist and the dealer select for an exhibition can be increased while keeping prices on the same level; *de facto* this reduces the selling price per unit of size, albeit in a concealed way. The second strategy is to 'restructure' the prices of an artist's work once he changes gallery. If an artist either voluntarily or involuntarily leaves a gallery or finds representation at another one, the taboo on price decreases is temporarily annulled, which makes it legitimate to start from scratch with prices. As a director of a large, multinational art dealership affirms: "Because of a kind of bubble or inflated period in time, an artist can be doing fantastic prices, and then show no activity (. . .) That is an opportunity to bring on very good people who are already very established, who need representation and will agree to lower their prices. (. . .) Some artist can be very well known, and still come and take a cut in their prices. (. . .) There were certainly some people who left [during the crisis of the art market in the early 90s]. The other ones who entered the gallery were very well known, and agreed to restructure their prices. So when there is a recessionary period, you jumble around and readjust" (US2). The third and most frequently used technique to achieve price decreases less ostentatiously, is to award discounts. Apart from enhancing sales, these discounts provide dealers the best of both worlds: on the one hand dealers can maintain high prices as a sign of quality, while on the other hand, they reaffirm social ties to collectors by awarding them discounts.

5. Beyond Signaling Theory

The notion that price signals quality is in itself not new. Indeed, the institutional economist Thorstein Veblen argued in *The Theory of the Leisure Class* (1899) that value is informed by 'pecuniary canons of taste': "any valuable object in order to appeal to our sense of beauty must conform to the requirements of beauty and of expensiveness both." If beauty and expensiveness are related, this is because the leisure class tends to value objects "in proportion as they are costly (Veblen 1899:108). Harvey Leibenstein spoke later of a 'Veblen effect' to denote situations in which the utility that consumers derive from consuming a good, does not only depend on its inherent qualities, but also on the price paid for it. In line with my findings, Leibenstein distinguished the real price from the conspicuous price of such goods: since consumers derive utility from the conspicuous price, but want to buy the good at a bargain nevertheless, middlemen have an incentive to set posted prices high, and subsequently discount them (Leibenstein 1950:203).

With respect to labor markets, my findings resemble the phenomenon known as wage rigidity. Just like price decreases are avoided on the art market, economists have long recognized that wages do not fall in case of unemployment; some explanations are in line with my finding that price decreases have a negative impact on the self-esteem of artists. Keynes stated in chapter 2 of the *General Theory* that workers are mainly concerned about relative wages, that is their own wage compared to those of others. As a result, employers would avoid wage decreases, unless all firms cut wages simultaneously (Keynes 1936). Other explanations of such rigidities by economists like Robert Solow and Georg Akerlof suggest that price decreases have a negative effect on the morale of workers. Wage decreases may result, in other words, in lower productivity (Bewley 1999). In the context of signaling theory, Stiglitz argued that employers refrain from hiring workers who offer their services for a lower wage in case of unemployment, since they interpret these lower wages as a sign of low productivity (Stiglitz 1987).

Thus the question is warranted how the interpretive approach to prices which I advocate, differs from more conventional economic approaches. I distinguish three main differences. First of all, price signals do not just serve the economic purpose of making sales to collectors or maximizing productivity of artists. They also contribute to establishing status hierarchies among dealers, collectors and artists. Secondly, they structure the art world on a supra-individual level. Thirdly, I argue that meanings of prices are always subject to interpretation and therefore polysemic.

5.1. Status Hierarchies

Price signals establish and confirm status hierarchies among art dealers, collectors and artists. They do not just refer to goods, as economists assume, but also to the people who produce and consume them. For instance, rising prices enable collectors and art dealers to express their 'aesthetic eye' or the heroic role they play in the art world: by contrasting the low level of the original acquisition prices with the high present market value of their holdings, they tell how early they were able to spot the quality of an artist's work. The Dutch collector Frits Becht, for instance, recounted in an interview with a weekly how he bought work by the Dutch artist Co Westerik for €75 in the 1950s, and emphasized that he could sell it 30 years later for 1,000 times that price. Likewise Sidney Janis, a famous post-war gallery owner in New York, remarked in an interview how difficult it was to sell works of abstract expressionist painters when they had their first exhibitions in his gallery. In 1952 he sold a work by Jackson Pollock for $8,000. Janis comments: "Twenty years later I bought it back for 350,000 dollar and gave it to the *Museum of Modern Art*. We sold *Blue Poles*, a somewhat smaller picture, for $6,000, and eventually it was sold to the *Canberra Museum* in Australia for a reputed $2 million" (Coppet and Jones 1984:39).[6] For him, as for many collectors, the gap between the original acquisition price and the present market value functions a status symbol.

This means that some collectors are triggered by low rather than high prices when they buy art. Keen on potential increases in value, and reassured of their own capability to 'spot quality', they refuse to buy for high prices. The American collector Paul Cummings, for instance, likened the excitement of collecting paintings to buying "strawberries . . . when they're plentiful and cheap" (Robson 1995:197). Likewise one of my respondents said that he tried to "sell work as cheap as possible, because (. . .) I want to grant people the pleasure of getting it for a bargain if they have the guts to buy work of an unknown artist" ($_{\text{NL}}$4).

Thus dealers need to have contextual knowledge in order to know in which cases they should signal quality by means of high prices, and in which cases they should emphasize the discoverer character of low prices.

Just like the difference between the original and the present market value of art is a status symbol for collectors, prices establish status hierarchies among artists. Ruth Towse noted that "monetary payment is a ranking device; if artist A is paid more than artist B, he feels more valued thereby. Many artists accept the judgment of the market" (Towse 2001:487). In her research on the art market of the 1980s, Krystyna Warchol noted likewise: "High prices are read as messages sent by the student to the community which say—as one student put it—'I am pretty damned good, I am better than you are" (Warchol 1992:324). These effects can be more meaningful than other types of praise or recognition for artists such as reviews by critics and peers, attention from cultural institutions, or compliments by collectors and dealers. These meaningful prices invoke the notion of a 'market experience' as political scientist Robert Lane calls it. Lane argues that apart from generating income, participating in the market and its social fabric is a source of emotional satisfaction in itself: it contributes to human development and to establishing a sense of worth (Lane 1991).[7]

Given that artists interpret such rankings as judgments over their self-worth and the quality of their work, they are fiercely contested. An eminent New York art dealer spoke of the tension which "permeates the entire art community, that certain artists are achieving very high prices, and that other artists think they are not worthy of those prices" ($_{\text{US}}$14). Anticipating such tensions, a Dutch art dealer said that she priced a young artist's work relatively low, even though the quality of her work would allow for prices as high as those of older, more established colleagues. Likewise, for a dealer I interviewed who represented Indian artists in the Netherlands, translating hierarchical differences into price differences was a rule rather than an exception: "In India there is a strong hierarchy between artists anyway (. . .). Young artists look up to artists who are older. So a younger artists will not mind if prices for the work of an older colleague are higher. I could not get away with pricing work of a younger artist higher, even if the quality of his work is much better. That is out of the question" ($_{\text{NL}}$3). In short, art dealers are confronted with ranking effects of prices when they do business.

5.2. Lending Structure to the Art World

Another phenomenon which signaling theory in economics does not account for, is that price signals do not just concern the level of individual artists, but also entire artistic movements or the position of countries in the international art world. By confirming the rise and decline of artistic movements, the price system structures or provides order to the art world as a whole. To give some examples in the history of art: in 1914, the outstanding collection of a small group of French investors known as *La Peau de l'Ours*, came up at auction at the Parisian Hôtel Drouot. The group had bought new, predominantly cubist artworks by artists such as Picasso before their careers had been established. The success of the auction was perceived by art critics as "a confirmation of the art's importance that their own aesthetic evaluations could not confer" (Fitzgerald 1995:17; Gee 1981:22–23). In the late 1990s, the record prices for the artwork made by contemporary photographers were likewise interpreted as the ultimate confirmation that the medium of photography was finally taken seriously in the art world.

Conversely, decreasing prices have been interpreted as the defeat of artistic movements, or even as evidence of a country's waning position in the international art world. When abstract expressionism rose in New York after World War II, this was at the expense of an older generation of American artists whose prices subsequently plummeted (Guilbaut 1983:179); the same drama unfolded for many artists who established their careers in the 1980s. Unable to sustain the price level which they had built up quickly during the boom of the art market, many saw their careers ruined. In a recent report commissioned by the French government, the fact that prices of contemporary French artists are lagging behind the international standard, contrary to their nineteenth century predecessors, was interpreted as a sign of the sorry state of the contemporary French art world.[8]

Apart from structuring the art world internally, high prices also structure the relationship of the art world to the remainder of society. Art historian Frances Haskell has pointed out that historically high prices "raised the whole status of art in the eyes of the world" (cited by Fitzgerald 1995:6). This status-raising effect of prices has practical, unintended consequences. It results in a concentration of resources directed at preserving artworks rather than other objects which societies have manufactured throughout history. Thus high prices contribute to the preservation of art for future generations. As a gallery owner claims: "There is a very important moral function carried out by high art prices, by the fact that this makes art valuable. A society can preserve only things that are valuable... the great moral contribution the market makes to art is the value it imputes to art which in turn leads to its preservation" (Klein 1994:65–66).[9]

5.3. Contested Meanings of Prices

A final deviation from conventional signaling theory is that meanings of prices are far from unequivocal, and always needs to be interpreted by actors. This underlines the need for an interpretive approach to prices as advocated by for instance Boettke (1995) and Ebeling (1990). The reason is that meanings of prices are based on conventions, which need to be learned: without knowledge of prices for art, a certain price difference, price level, or price change will be meaningless. They only become meaningful through a process of 'semiotic socialization', which largely coincides with becoming part of the arts community. Conversely, an outsider to the arts community will not understand or will contest the meanings which prices convey. Thus when sociologist David Halle studied artworks on display in private houses in New York, and asked their owners about the meanings these works had for them, he recorded the following statements: "Some of the modern stuff is o.k., but a lot of the stuff is either ugly or a put-on. These million-dollar price tags are a big put-on." Another respondent said: "I stand looking at two blobs, trying to find a meaning in it. The meaning is that they can get fantastic sums of money for the works!" (Halle 1993:125, 127).

Such contestation of the meanings of prices frequently arises when museums acquire works by modern or contemporary artists with tax money. In the Netherlands, museum acquisition of artworks that are difficult to appreciate without being educated in art, were followed by heated media debates over the legitimacy of prices paid by art museums. As the Dutch art critic Sven Lütticken argues: "The prices modern artworks received were always an efficacious instrument to make an issue of the aversion to them. It made that abject modern art even more repulsive."[10]

Also within the art world, the price mechanism may lead to confusion, misunderstandings and contestation. This becomes apparent when an artist is insulted by the low price a dealer sets for his work, when collectors mistrust prices that are either lower or higher than they expect, or when dealers ridicule the high prices which a colleague has set. I ran into dealers who thought of an artist and her cautious pricing preferences as too modest, and into others who interpreted their artist's demands for high prices as a symbol of a misplaced sense of superiority. Contrary to signaling theory, it suggests that prices may have many different meanings simultaneously. Disputes over meanings of prices are particularly outspoken between different circuits within the art world that do not share the same artistic standards. For instance, dealers, artists and collectors in a conservative circuit where mostly representational art is traded, dispute the high prices which artworks achieve in an avant-garde circuit. In the former, the high prices for avant-garde art symbolize the vacuity of the latter circuit.

6. Conclusion

Austrian economists have argued that the price mechanism constitutes a communicative system which conveys knowledge to economic actors. This signaling function of prices has been the central concern of this paper. I have outlined how the Austrian perspective differs from a neoclassical point of view, and from signaling theory, which emerged out of the economics of information. My main criticism of the Austrian view is that the meanings that it discusses are unduly limited to strictly economic meanings such as economic incentives and profit opportunities. As a result, promises of a younger generation of Austrian economists, who advocate an interpretive approach to prices, are not fulfilled. Building on the work of Clifford Geertz as well as more recent work in economic anthropology and economic sociology, I have illustrated such an interpretive approach empirically by means of a thick description of price setting on the market for contemporary art in Amsterdam and New York. I have argued that in order to come to a proper understanding of prices for art, we have to take social and cultural meanings of prices into account as well as the cognitive processes that produce these meanings. Rising prices of the work of a particular artist may signal that demand exceeds supply, or may attract the attention of alert investors in art, but an artist may interpret this rising price primarily as a sign of artistic progress or of acceptance by the art world. Because of the uncertainty about artistic or aesthetic value that prevails on the art market, price decreases will conversely affect the self-esteem of artists and harm belief in the value of the work that an art dealer has carefully built up. The signals price changes give can in other words be more about the quality of the work, than about its relative scarcity. In this respect, artistic and economic values are intertwined in a complex way (cf. Cowens 1998).

Although these findings suggest that economic signaling theory is to the point, the picture that my interview data provide is richer and more complex than that. For instance, meanings of prices also serve to construct status hierarchies among collectors as well as among artists. For some collectors, low prices are attractive since they signal the pride of being a discoverer, while other buyers may be uncertain because of the lower prices. Even economically successful and culturally reputed art collectors seem nothing like rational, self-interested economic man, but all the more like ordinary moral beings who long for praise of their peers, are uncertain about their decisions, and seek widespread approval for their actions. Thus dealers operate in a web of meanings when they set prices, which may give rise to misunderstanding, confusion, and dispute. A high price for an artwork can be interpreted as a signal of quality by some, but it can also be ridiculed as a symbol of fraud by others. It goes to show that prices are not just about goods, but also about the people who make, distribute, and acquire them.

For sure, the type of knowledge I derive from my ethnographic material has a different quality than conventional economic knowledge: it is less abstract, less rigorous and more difficult to generalize than economists generally prefer. I contend, however, that it provides a richer understanding of the actual practices of dealers, of decision making about prices, and of markets in general. The meanings of prices that I have discussed may therefore not be generalized, but the fact that prices generate social and cultural meanings apart from economic ones is likely to hold for other markets. Indeed, I claim that there is a complex, meaningful world behind the supply and demand curves of economic theory. Rich economic ethnographies and thick descriptions may be fruitful avenues to a better understanding of this world.

Acknowledgment

Many thanks to Peter Boettke, Neil de Marchi, Arjo Klamer, the participants of a luncheon seminar at the Economics Department of Duke University, and two anonymous referees for helpful comments. Financial support from the Netherlands Organization for Scientific Research and the Trust Foundation (Erasmus University Rotterdam) is gratefully acknowledged.

Notes

1. For a general Austrian approach to markets for cultural goods, see Tyler Cowens' *In Praise of Commercial Culture* (1998).
2. Other studies of prices in Western economies by sociologists and anthropologists include Baker (1984) on a social structural explanation of the volatility of prices on security markets; Podolny (1993) on price levels and the status of firms within a market, Smith (1989) on the social construction of auction prices, and Prus (1985) on price setting on retail markets as a social activity. The price mechanism of non-western markets (in particular the bazaar economy) has been studied by anthropologists like Geertz (1979), Fanselow (1990) and Alexander and Alexander (1992).
3. In both cities, the same questionnaire was used. The selection of galleries was made on the basis of three criteria: first, diversity in terms of age and location of the galleries was maximized. Second, I tried to maximize diversity in terms of the artistic program of the gallery, ranging from 'easily accessible', figurative, and often inexpensive oil paintings to so-called 'inaccessible', avant-garde or experimental art; the sample is however biased toward the second category. Third, the sample was partially based on a snowball method: interviews with some dealers were made on the basis of recommendation of gallery owners I had interviewed before.

4. For the American situation, most material was obtained from two main magazines, *ARTnews* and *Art in America*, and one newspaper, *The New York Times*, volumes 1990–1999. Since comparable art magazines are lacking for the Dutch art market, I focused on two daily newspapers with extensive coverage of the visual arts, *de Volkskrant* and *NRC Handelsblad*. Volumes of newspapers were searched systematically with the help of the on-line full-text service *LEXIS-NEXIS Academic Universe* and CD-ROM editions; art magazines were searched with the bibliographical *Art Index*.
5. This strategy of 'underpricing' has been discussed frequently in economic literature, in particular with respect to the pricing of equity at an Initial Public Offering (IPO). Because of a company's underpricing strategy, investors can make an excess return by buying the IPO and selling it as soon as the equity appears on the open market. One explanation for this excess return is that buyers need to be enticed with a lower price to buy the stock since they are uncertain about its value (see e.g. Levis 1990:87); another explanation is that companies are risk averse, and therefore set the price low enough for investors to get interested. Neither explanation for underpricing is related to a taboo on price decreases.
6. John Brooks, 'Why fight it? Profiles: Sidney Janis', *The New Yorker*, 11.12.1960; 'A portrait of Sidney Janis on the occasion of his 25th anniversary as an art dealer', *Arts Magazine*, November 1973; Rudie Kagie, 'Interview met Frits Becht', *Vrij Nederland*, 49, 6.4.1988.
7. Take the case of Tim Rollins, a critical New York artist who, being highly influenced by Marx, was concerned about the wasteful culture which capitalism created. In order to counter what he calls "waste of human resources", in 1982 he established the art program *Kids of Survival* (K.O.S.), which was directed at developing the innovative and creative talents of learning-disabled and emotionally handicapped teenagers in the New York neighborhood of the South Bronx. In an interview with the magazine *Art in America*, Robbins expresses his pride in the commercial success of the program, since it enriched the material life of a group of teenagers, whose future would otherwise have been destitute. His pride is not only related to economic success, but also to artistic success. Because of the exceptional group of collaborators, Robbins recounts how he "had to defy the expectations and prejudices that people generally have about a bunch of kids and a schoolteacher." To show that they have accomplished that, the artist talks prices in the interview: "I think we have done that—from $5 bricks in 1981 to over $150,000 for a major work today." Robbins, his Marxist background notwithstanding, conveys the artistic achievement of himself and the South Bronx teenagers by referring to the price increases as a summary of their artistic success and of their acceptance by the cultural community. See Lilly Wei, 'Making art, Making Money. Artists Comments', *Art in America*, July 1990, p. 178.
8. See Richard B. Woodward, 'Racing for Dollars, Photography Pulls Abreast of Painting', 3.24.2001; Alain Quemin, *Le rôle des pays prescripteurs sur le marché et dans le monde de l'art contemporain*, Report commissioned by the Ministry of Foreign Affairs, June 2000.
9. The late New York art dealer Leo Castelli argued likewise that an important side-effect of high market prices is that they draw the attention of potential collectors and get them involved with art: "Now the news about high prices has captures [the public's] attention. This has its unfavorable side, of course. Yet some who became interested in a superficial way have gotten truly involved with art"; Carter Ratcliff, 'Dealers Talk', *Art in America*, 76(7), July 1988, pp. 78–79.
10. See Sven Lütticken, 'Prijs en waarde. De moderne kunst onder vuur', *De Witte Raaf*, 78, March–April 1999, pp. 23–25; a famous historical instance of such a negative symbolic value of a price, is the case between John Ruskin and James Whistler. Art critic and artist Ruskin wrote the following about Whistler's canvas *Nocturne in black and gold: The Falling Rocket*: "I have seen, and heard, much of cockney impudence before now; but never expected to hear a coxcomb ask two hundred guineas for flinging a pot of paint in the public's face." Whistler sued Ruskin, won, but since he since the damages he was granted were negligible and the costs of the trial were high, he had to file for bankruptcy (see Erftemeijer 2000, p. 323).

References

Abolafia, M. Y. (1996) *Making Markets. Opportunism and Restraint on Wall Street*. Cambridge: Harvard University Press.

Akerlof, G. A. (1970) "The Market for "Lemons": Quality Uncertainty and the Market Mechanism." *Quarterly Journal of Economics*, 84(3): 488–500.

Alexander, J. and Alexander, P. (1991) "What's a Fair Price? Price-Setting and Trading Partnerships in Javanese Markets." *Man*, 26(3): 493–512.

Alexander, P. (1992) "What's in a Price? Trading Practices in Peasant (and other) Markets." In: Dilley, R. (Ed.) *Contesting Markets. Analyses of Ideology, Discourse and Practice*, pp. 79–96. Edinburgh: Edinburgh University Press.

Baker, W. E. (1984) "The Social Structure of a National Securities Market." *American Journal of Sociology*, 89 (4): 775–811.

Bewley, T. F. (1999) *Why Wages Don't Fall During a Recession*. Cambridge: Harvard University Press.

Boettke, P. J. (1995) "Interpretive Reasoning and the Study of Social Life." In: Prychitko, D.L. (Ed.) *Individuals, Institutions, Interpretations*, pp. 59–80. Aldershot: Avebury.

Coppet, L. D. and Jones, A. (1984) *The Art Dealers. The Powers Behind the Scene Tell How the Art World Really Works*. New York: Clarkson N. Potter.

Cowens, T. (1998) *In Praise of Commercial Culture*. Cambridge: Harvard University Press.

De Marchi, N. and Miegroet, H. J. V. (1994) "Art, Value, and Market Practices in the Netherlands in the Seventeenth Century." *Art Bulletin*, 76(3): 451–464.

Ebeling, R. M. (1990) "What is a Price? Explanation and Understanding (With Apologies to Paul Ricoeur)." In: Lavoie, D. (Ed.) *Economics and Hermeneutics*. London: Routledge.

Ebeling, R. M. (1995) "Toward a Hermeneutical Economics: Expectations, Prices, and the Role of Interpretation in a Theory of the Market Process" In: Prychitko, D. L. (Ed.) *Individuals, Institutions, Interpretations. Hermeneutics applied to economics*, pp. 138–153. Aldershot: Avebury.

Erftemeijer, A. (2000) *De Aap van Rembrandt. Kunstenaarsanekdoten van de Klassieke Oudheid tot Heden.* Haarlem: Becht.

Fanselow, F. S. (1990) "The Bazaar Economy or How Bizarre is the Bazaar Really?" *Man*, 25(2): 250–265.

Fitzgerald, M. C. (1995) *Making Modernism. Picasso and the Creation of the Market for Twentieth-Century Art*. New York: Farrar, Straus and Giroux.

Frey, B. S. (1997) "Art Markets and Economics: Introduction." *Journal of Cultural Economics*, 21: 165–173.

Friedland, R. and Alford, R. R. (1991) "Bringing Society Back: Symbols, Practices, and Institutional Contradictions." In: DiMaggio, P. J. and Powell, W. W. (Eds.) *The New Institutionalism in Organizational Analysis*, pp. 232–263. Chicago: The University of Chicago Press.

Gee, M. (1981) *Dealers, Critics, and Collectors of Modern Painting. Aspects of the Parisian Art Market Between 1910 and 1930*. New York: Garland Publishing.

Geertz, C. (1973 [1993]) *The Interpretation of Cultures*. London: Fontana Press.

Geertz, C. (1979) "Suq: The Bazaar Economy in Sefrou." In: Geertz, C. Geertz, H., and Rosen, L. (Eds.) *Meaning and Order in Moroccan Society*, pp. 123–225. Cambridge: Cambridge University Press.

Grampp, W. D. (1989) *Pricing the Priceless. Art, Artists and Economics*. New York: Basic Books.

Guilbaut, S. (1983) *How New York Stole the Idea of Modern Art. Abstract Expressionism, Freedom, and the Cold War*. Chicago: University of Chicago Press.

Halle, D. (1993) *Inside Culture. Art and Class in the American Home*. Chicago: University of Chicago Press.

Hayek, F. A. (1945 [1949]) "The Use of Knowledge in Society." In: *Individualism and Economic Order*. London: Routledge.

Heilbrun, J. and Gray C. M. (1993) *The Economics of Art and Culture. An American Perspective*. Cambridge: Cambridge University Press.

Horwitz, S. (1995) "Monetary Exchange as an Extra-Linguistic Social." In: Prychitko, D. L. (Ed.) *Individuals, Institutions, Interpretations. Hermeneutics Applied to Economics*, pp. 154–175. Aldershot: Avebury.

Kessler-Harris, A. (1990) *A Woman's Wage. Historical Meanings and Social Consequences.* Lexington: University of Kentucky Press.

Keynes, J. M. (1936) *The General Theory of Employment, Interest and Money*. New York: Harvest/Harcourt Brace Jovanovich.

Kirzner, I. M. (1992) *The Meaning of Market Process. Essays in the Development of Modern Austrian Economics*. London: Routledge.

Klein, U. (1994) *The Business of Art Unveiled*. New York Art Dealers Speak up. Frankfurt a. Main: Peter Lang.

Lane, R. E. (1991) *The Market Experience*. Cambridge: Cambridge University Press.

Lavoie, D. (Ed.) (1990) *Economics and Hermeneutics*. London: Routledge.

Leibenstein, H. (1950) "Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand." *Quarterly Journal of Economics*, 64(2): 183–207.
Levis, M. (1990) "The Winner's Curse Problem, Interest Costs and the Underpricing of Initial Public Offerings." *Economic Journal*, 100(March): 76–89.
Moulin, R. (1967 [1987]) *The French Art Market. A Sociological View.* New Brunswick: Rutgers University Press.
Moulin, R. (1994) "The Construction of Art Values." *International Sociology*, 9(1): 5–12.
Plattner, S. (1996) *High Art Down Home. An Economic Ethnography of a Local Art Market*. Chicago: Chicago University Press.
Prychitko, D. L. (1995) *Individuals, Institutions, Interpretations*. Hermeneutics Applied to Economics. Avebury: Aldershot.
Riley, J. G. (2001) "Silver Signals: Twenty-Five Years of Screening and Signaling." *Journal of Economic Literature*, 39(2): 432–478.
Robson, A. D. (1995) *Prestige, Profit, and Pleasure. The Market for Modern Art in New York in the 1940s and 1950s.* New York: Garland Publishing.
Smith, C. W. (1989) *Auctions. The Social Construction of Value.* New York: Free Press.
Spence, A. M. (1974) *Market Signaling: Informational Transfer in Hiring and Related Screening Processes*. Cambridge: Harvard University Press.
Stigler, G. (1961 [1971]) "The Economics of Information." In: Lamberton, D. M. (Ed.) *Economics of Information and Knowledge*, pp. 61–82. Harmondsworth: Penguin.
Stigler, G. J. (1987) *The Theory of Price*. New York: MacMillan.
Stiglitz, J. E. (1987) "The Causes and Consequences of the Dependence of Quality on Price." *Journal of Economic Literature*, 25(March): 1–48.
Thaler, R. H. (1999) "Mental Accounting Matters." *Journal of Behavioral Decision Making*, 12: 183–206.
Thomsen, E. F. (1994) "Prices and Knowledge." In: Boettke, P. J. (Ed.) *The Elgar Companion to Austrian Economics*, pp. 167–172. Aldershot: Edward Elgar.
Towse, R. (1992) "The Earnings of Singers: An Economic Analysis." In: Towse, R. and Khakee, A. (Eds.) *Cultural Economics*, pp. 209–217. Berlin: Springer Verlag.
Towse, R. (2001) "Partly for the Money: Rewards and Incentives to Artists." *Kyklos*, 54(2/3): 473–490.
Veblen, T. (1899 [1994]) *The Theory of the Leisure Class*. New York: Dover.
Velthuis, O. (2002) *Talking Prices. Contemporary Art, Commercial Galleries, and the Construction of Value*. Erasmus University Rotterdam: Unpublished Dissertation.
Velthuis, O. (2005) *Talking Prices. Symbolic Meanings of Prices on the Market for Contemporary Art*. Princeton: Princeton University Press. *Theory & Society*, 31: 181–215.
Warchol, K. (1992). *The Market System of the Art World and New Art: Prices, Roles and Careers in the 1980s*. University of Pennsylvania, Philadelphia: Unpublished Dissertation.