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## Tainted Love: Art's Ethos and Capitalization

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# tainted love: art's ethos and capitalization suhail malik/ andrea phillips

France was again the target of jittery investors, worried its top AAA credit rating is at risk. Yields on its benchmark 10-year government bonds climbed and their spread over Germany's equivalent bunds hit a record for the euro era. Paris said the risk premium was "not justified." ... Analysts warn it may well not be the steady sale usually expected from a country with a coveted AAA rating.

"The price action in European monetary union (EMU) AAAs (excluding Germany) in the last few sessions clearly highlights that it is not about value in EMU AAAs at the moment. It is about fear and positioning," said Jamie Searle at Citi.<sup>1</sup>

One of the primary masks of capital is the naturalization of its processes as inevitabilities. British Prime Minister Gordon Brown's language in the Autumn of 2008—that the global financial crisis "happened to us"—is testament to the rapid and strategic shifts in alliances of power and profit that support crisis economics. We were just in the wrong place at the wrong time; it was chance that it happened to us; it

was predetermined from above, and so on. The same heady mixture of belief and money—or, more precisely, naturalized urge camouflaging monetary transaction—is evident in the art world when a collector buys or a dealer sells an artwork on the basis of an inexplicable and even capricious love. Just as “fear and positioning” now motivate the price action in the EMU, the same sensuous pathologization is evident in the elite mechanisms of art buying and selling. We argue that the love of art, here characterized as an ascendant property of art market transaction beyond the normative duties of care and control, is not simply a fetish but a powerful agent in the further redistribution of wealth, practiced in clear systemic collaboration with artists, curators, critics, and other actors in contemporary art’s infrastructure. As elaborated below, art is situated as an “alternative” commodity in part because of standard, received expectations of the personalities and passions of both artists (as quixotic, passionate, unpredictable) and their dealers and collectors (variously holding back ready stock from the market, not selling at the height of profit, etc.) The art market is in this sense peculiar not simply because it lacks transparency because of its unregulated, opaque, and inefficient market but also because its trade is built on the impulsive and chancy gesture of love. As we shall see, such amorous/erotic transactions filter across the private to the public sector as museum and state-run galleries become increasingly reliant on the donations and bequests of private collectors in order to maintain both their permanent collections and temporary exhibitions, thus significantly blurring the boundaries between state care and private passion.

That such passions, chance encounters, and decisions are irreducibly involved in the operations of the art market perhaps accounts for the relative failure of investment funds to rationalize it. In his comprehensive overview of recent developments in the contemporary art market Noah Horowitz remarks that the art fund industry “is not only emblematic of the enterprising new ways in which contemporary art is sold and experienced, ... nor of how the art economy as a whole has embraced globalization; it is modern global finance embodied.”<sup>2</sup> However, we learn over the ensuing pages that art investment funds—for which art is an “alternative asset class” to standard equities, shares, and bonds—have in fact not done very well over the first decade of the twenty-first century. Such funds have generally failed to draw in investors, have “weak historical track records” on their returns, dissolve, or have closed down (in the case of Fernwood, one of the leading art funds, shutting shop because of suspected embezzlement by its CEO). These failures, together with the more general broken optimism for art investment funds, could be taken as an ironic confirmation that they did indeed embody “modern global finance” over the decade to 2008, not least in the leading role the global finance sector took in bringing about the systematic social and economic distress that has since ensued.

In light of all this it may seem perplexing if not perverse to maintain that the art market can indeed be understood as the embodiment of finance. Not that this is Horowitz’ claim: he remarks only that art investment funds are such embodiments even though, as we have seen, this is also why they have limited to no

success in establishing themselves in the art market. Yet, as we now argue, art does indeed embody the truth of finance, and it does so precisely in its failure or limitation as a kind of free-market investment. Proposing as much not only allows the convergence of interests and operations of art (in particular contemporary art) and finance to be apprehended theoretically, it also reconfigures the significance of what is frequently heralded as the condition and satisfaction of its collectors: their love of art.

Warranted though the acerbic identification of the failure of art investment funds with modern global finance may be, it leaves unexplained how and why art investment funds in particular did not live up to the promises made for them in the finance-led boom of the mid-2000s. Horowitz presents many of these intrinsic reasons, which arise mainly due to the particularities of art as an investment. For example, it is highly illiquid (it cannot be quickly converted into money flows); it has many upfront and additional costs including insurance, storage, handling, shipping, etc.; it does not pay dividends or returns over the time it is held by the investor, and so on. That art generates no earnings until its sale but has ownership costs makes it a “negative cash flow asset.”<sup>3</sup> The particularities of art as an investment are not, however, limited to its material conditions and the requirements of preservation; they also arise from the specificities of its trading, which include “high transaction costs, ... limited arbitrage opportunities,”<sup>4</sup> and highly “opaque market information,” in that actual transaction prices are not openly advertised outside of auction resales of art (the secondary market) even as the manipulation of

these prices by the artists’ dealers is a well-known part of such highly visible valuations. In other words, the ownership and trade of art is far from being the transparently- and openly-costed, easily-transferred, low-maintenance circulation of claims that modern global finance is built upon. On the one hand, this is the advantage it is supposed to present to art investors, who look to profit from the high level of “asymmetrical information” offered by art’s “pricing inefficiencies”<sup>5</sup>—that is, they deploy to their advantage knowledge gained through closer involvement with art dealers. On the other hand, however, it means that art’s economy has a “weak pricing system” because it “lacks a single generally accepted valuation methodology,”<sup>6</sup> such a methodology being a primary and constitutive assumption for the finance sector.

There are two interconnected aspects to this weakness, one is theoretical-ideological, to which we later return, the other is sociological-institutional: that “art funds’ investment objective may be intrinsically flawed”<sup>7</sup> because the free-market precepts core to such vehicles and their investors are in fact inapplicable to art. In Horowitz’ wry words: because such investment funds’ “vindication of art as an asset class is based so strongly upon free-trade economic theory, they may have underestimated the behavioral aversion of the market ... towards such unabated speculation.”<sup>8</sup> It is not only that the art market is averse to the standard pricing mechanisms constitutive of modern global finance’s operations and processes but, moreover, that art dealers’ “antispeculative vehemence” makes for “sound business sense.”

In fact, dealers' suppression of the economic [meaning here the free market principles underlying modern global finance] ... may ultimately strengthen their financial prospects: collectors continue to do business with them because they trust their prices, and so the quality of their inventory. ... As goods leave the dealer's inventory and extend beyond the network of collectors who comply with the first right of refusal, their control over supply diminishes—and with it, their monopolistic price control mechanism.<sup>9</sup>

"Antispeculative vehemence," highly regulated trade, tight control mechanisms on ownership and subsequent resale; all of these standard business practices are how and why dealers "strengthen" their market share and are "commonly regarded" as better art investors than art investment fund managers.<sup>10</sup> But if this is so it is because the methods and transactional processes most successfully deployed in art's commercial markets contravene in almost every way the free market principles and investment assumptions and patterns core to "modern global finance." If such patterns are indeed embodied by art investment funds it is little surprise that they tend to fail so often or remain so modest. Equally, anti-speculative vehemence is intimately allied to the amorous/erotic involvement in art, widely flaunted in the acquisition of blue-chip art and the cloying discourses and beliefs of central figures in both public and private art sectors who support and rely upon such collectors. But such artworks—and therefore artists—are blue-chip precisely because they return a consistently high

price on both primary and secondary markets. This art is the "royalty" of the art market (just as the "blue" of blue-chip is said to derive from "blue blood"); the prizes in private and public art collections the world over (local cultural significations and traditions notwithstanding). If you have a Picasso or a Warhol in your museum (currently and colloquially, the safest bets, the bluest chips) you are likely to ride the storm of any market crash. Thus the game of betting is played by those who like to feign at gambling and have the means to do so. The term "blue-chip," applied to companies that are regarded as "safe bets" on a stock exchange—corporations of any type that perform consistently well and operate profitably through ups and downs—is notably transferred to the informal "ratings" mechanisms of the art market, evidencing the relationship between luck and profit actualized in art investments. The term derives from poker, where a blue chip is valued higher than a red or white chip. Evidently, the game of chance, for those that can or must play it, transitions neatly across money actions, and the "safe bet" epitomizes in its "anti-speculative vehemence" the critical link between risk and aspiration, the brag of profit and the depths of loss.

The idea of a safe bet is, of course, a non-sequitur; wished for in all capital transactions, the safe bet is perhaps especially and dramatically apparent in the art market. Gambling on art is then only a specific type of investment, in which the passion of the game is matched by other passions—the love of art and the performative instantiation of that love on and through "buying action." The titillation of such an *ethos* for the "civilian" onlooker is clear in the popularity of art

auction and art opening features in popular newspapers and magazines, as well as in the sales of semi-serious research publications giving an “insider” and interview-based account of dealing and collecting.<sup>11</sup> Such marketplace hagiographies attempt to make public the private world of art dealing, yet they isolate the privacy of monetary transaction to the shock and awe of numerology (in the sense that the cash figures are dramatically and thus mystically out of reach). It is these forms of action, private yet made public in the glare of gossip after art auctions (the secondary market) and through rumor and the awarding of prestige and cultural capital through deals made with art galleries and art consultants (primary market), that are under examination.

Spending on blue-chip art—a practice already made paradoxical and thus separate from standard stock and share transactions through the concept of “safe betting”—ties the buyer into an interested bundle of socio-cultural mechanisms whereby the action of spending money is primarily seen as quixotic and impulsive, and only secondarily, if at all, as investment-based. Drawing on the research of Raymonde Moulin on the French art market and connoisseurship in the 1960s, Ulf Wuggenig points to the relation between amateurism, defined as the engagement in an activity for pleasure rather than profit, and love (*amator*—lover). Reflecting on Moulin’s interviews with collectors, and quoting Pierre Bourdieu, Wuggenig says, “their self image was that they collected not for instrumental reasons but for the ‘love of art’—and more particularly for the sort of ‘pure love’ that has its roots in the ideology

of charisma; a love ‘irreducible to money and any objects of bourgeois interest.’”<sup>12</sup>

The centrality of this amorous ethos to the concentration of social and capital power in art of course relies upon and maintains the belief that while art is indeed traded on a market it is the very *obstruction* of that market to liberal free-market principles and practices that accords with an involvement in art itself. The art market is rather a market of “care,” deemed to be appropriate to art because art itself is decontaminated from capital accumulation.<sup>13</sup> Through art and the love of art, wealth and power excuse themselves; they demonstrate their ethos of human passions over that of money. Interviewing the art consultant Philippe Ségalot about how he finds and matches the right artwork to a buyer, Sarah Thornton asks:

How does Ségalot know when he has encountered the right work? “You feel something,” he says with fervour. “I never read about art. I’m not interested in the literature about art. I get all the art magazines, but I don’t read them. I don’t want to be influenced by the reviews. I look. I fill myself with images. It is not necessary to speak so much about art. I am convinced that a great work speaks for itself.” A faith in gut instinct is common to most collectors, consultants and dealers, and they love to talk about it.<sup>14</sup>

The asymmetrical shape of the art market is concomitant with the collector being a lover. This in turn renders the market one of passion—a passion built on the eroticism of impulsive taste and fueled by dealers

and consultants formulating that love competitively. Such incalculable passion is the avowed ethos not just of the agents in the art market but of art's institutionalization more generally; it is the identifying assumption as to why one would be involved in art at all. But while it is relatively easy to characterize the impulsive collector as a pathological subject, or the aggregate movements of the art market to be of behavioral rather than rational economics,<sup>15</sup> a more complicated and more urgent issue is the relation between the *convenience* of that pathology (the irrational collector who bankrupts him or herself in the name of love for a particular artist's work, for example) and the method of accumulation as it is signaled by art's price. Our interest is precisely the logic of the relation between the art market's price-setting mechanisms and the evident "irrationality" of art's pricing in relation to production costs or other supposed "real" bases for pricing. We aim here to remove the (proto-ideological) support for the decontamination of power through art's ethos, which is no less a moral-affective support for finance gained by the separation in principle of economy (price), social order, and art, the rationality of one being opposed to the irrationality of the other.

The rationality of the liberal markets and the art market's countermanding of it are central to the more theoretically-ideologically situated aspect of art's "weak pricing system." Not only are art prices on the primary market set "monopolistically," but these prices do not observe the basic diktats of modern economic theory: "art investors cannot simply determine the discounted value of its future cash flows, as is common

place in the equity and real estate markets"<sup>16</sup>—or indeed any conventional pricing calculation deployed in liberal economic theory. As Jonathon Nitzan and Shimshon Bichler explain, this formula "tells us how much a capitalist is prepared to pay now"—the price—"to receive a flow of money later," reducing "a future stream of earnings to their present value."<sup>17</sup> For Nitzan and Bichler "capitalization" is defined by the process of "reducing" earnings to their present value together with the ordering of that which is thus priced.<sup>18</sup> In contrast to the supposed universal salience of this pricing formula, which is core to neoclassical economic dogma, art has no basis for its future earnings other than speculative guesses. The best the art buyer can do is "make an educated bet that the price of an artwork may rise in the future, but calculating such gains is hardly a perfect science"<sup>19</sup>—hence the problematic relation between investment fund strategies, which assume such pricing formulas, and art market dealings, which decry them. Contrary to this apparently irreducible incongruity, Nitzan and Bichler propose that the neoclassical formulation of price is itself a falsehood if not a mystification. The unsurmountable problem it faces is that since expected earnings are gained in the future, those earnings and therefore the rate of return are in fact unknown and only speculative expectations. Furthermore, since the expected rate of return is calculated on the basis of future earnings, it is not even known if variables in this "elementary" calculation of capitalization are interrelated or not. The core formula for the neoclassical price-setting model thus says nothing to the content or relation of its determinants. Or then price. In other words, standard price-setting is

*never* in fact the “discount value of future cash flows.”

While the pretence that price can be calculated on the basis of discounted earnings can be mostly maintained by reference to a “real economy” of earnings, debts, production, and so on—all of which can be called upon as a supposed basis for calculating “future earnings” and “rates of return”—its actual implausibility is wholly apparent in art’s price-setting, as Horowitz recognizes. In other words, the price-setting of art reveals capitalization as such, without the legitimizing, retro-fitted measurements and theories seeking to justify earnings on the basis of production (Marxism) or consumption (neoclassical liberalism). That is, the art market demonstrates the truth of all price-setting: that there is no basis in production or consumption for pricing, only capitalization. In itself, this result is hardly news: art prices cannot be rationalized by reference to production.<sup>20</sup> But its derivation from Nitzan and Bichler’s theory of capitalization brings with it two important corollaries, which return to the sociological-institutional conditions of art and its market:

(i)

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If art prices are explicitly financially generated without reference to production, they make manifest the condition of all price-setting, or what could be called capital’s procedural and operational “fincanciality” (the term is not Nitzan and Bichler’s). Financiality here designates that finance is a primary condition for, rather than consequence of, capitalization and price-setting and

financialization of art

that, as such, price and capital are not predicated on production, use-value, consumption, or other bases external to finance.<sup>21</sup> It is not then that art pricing is a puzzle compared to other, productive or consuming, sectors of the economy, but that the art market dispels their obscuring of capitalization as the primary determinant of price (which is also why its price-setting mechanisms present such a practical and theoretical difficulty to neoclassical and Marxian (NCM) accounts). For Horowitz, the only tendentious salience of standard theories of price-setting to art is the fact that art has a “weak pricing system.” And while it is indeed “weak” from the perspective of the neoclassical precepts to which Horowitz subscribes, it is for just that reason a pronounced example of the conditions of capitalization as Nitzan and Bichler account for it, namely that “all capital is finance and only finance.”<sup>22</sup>

(ii)

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As Horowitz observes, interest from regular financial investment funds in the art market tends to go rather badly thanks to the “monopolistic price control mechanisms” of the primary market. Nitzan and Bichler’s notion of capitalization, however, proposes that such monopolistic price controls are not the exception in price-setting but the standard. In particular, the primary market is only a trenchantly organized market of “administered prices” that are

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usual business practice. Administered prices stabilize earnings on the basis of the markup on their wares.<sup>23</sup> As for the primary art market, such prices are set by highly concentrated and often colluding businesses and sectors. More exactly, administered prices are a form of control over prices and represent the “degree of monopoly” of the firm over the market. Horowitz’ remark is then a recognition from inside the neoclassical paradigm that the primary market is one of administered prices.

That capitalism’s financiality is independent of its putative justification of production is, however, only a partial result in Nitzan and Bichler’s larger and more general claim, which they make following Thorstein Veblen’s distinction between generalized social production (industry) and private ownership (business). Industry is “an integrated creative process whose productivity derives from the totality of its purposeful resonating pulses,”<sup>24</sup> the latter phrase meaning the integrated effects of production across society. Business, on the other hand, is the “power process carried out through the prerogatives of ownership.”<sup>25</sup> For Nitzan and Bichler the primary question core to all capital accumulation is “how does private ownership ‘generate’ earnings?”<sup>26</sup> They note that the etymology of private is from the Latin *privatus*, “restricted,” and related to *privare*, “to deprive.” Private ownership is for them the “power principle of capitalism” not because “it enables those who own” but because, as just noted, “it disables those who do not.” To use their local example, not being able to transfer Warren

Buffet’s assets to anyone at all is an issue of ownership not technical limitation. In more general terms, private ownership is the condition of capitalism because “it is wholly and only an institution of exclusion, and institutional exclusion is a matter of organized power.” What is key here is that ownership is not productive per se since it “has no bearing” on industry intrinsically, and certainly does not add to it. Industry and business are different in kind. But business can *profit* by gaining an advantage over industry it does not own by damaging it, and thereby lowering the maximization of industry overall. *Sabotage* is then the condition and actuality of capital earnings. Furthermore, since business capital necessarily sabotages industry, capital is then not just sometimes unproductive with regard to industry but is necessarily counterproductive.<sup>27</sup> In stark contrast to the shared tenets of NCM paradigms, capital always lessens industry rather than profiting from its increase: “the only way for capitalists to profit from productivity is by subjugating it and limiting it. And since business earnings hinge on strategic sabotage, their capitalization represents nothing but incapacitation.”<sup>28</sup> Sabotage is the shaping of generalized industry, ordering it to specific and particular interests; it is a technique of concentrating power. As such, capitalization is a social ordering for the sake of privatized earnings and is therefore directly power. Economy is then always and necessarily a political economy; there are no “free” markets.

While this general result holds for art as it does for anything else that is capitalized, what is specific about art’s financiality is that because art prices are set with reference to nothing but its financiality and

as its market is so highly administered, art prices *explicitly* demonstrate the ordering and sabotage of general production by and for private earnings.<sup>29</sup> Art prices are unequivocal instantiations of capital-power without any recourse to socio-political accountability. In these terms, the difference between art's primary and secondary markets is that such sabotaging capitalization—the degree of monopoly, the *concentration* of institutionalized power—is greater in the primary market, while the *demonstration* of sabotage is more overt in the secondary market. These two aspects are in no sense contradictory nor do they even contravene one another as in the “Hostile Worlds” scenario in which art and money do not touch, identified by Olav Velthuis to be commonly mobilized by agents defending the monopoly of the primary market against the encroachments of the secondary, often by recourse to the impassioned ethos of the former.<sup>30</sup> Rather, both markets are effectively mobilized together to further increase the total and specific “degrees of monopoly” of capital power. This result accords with the observation that for all the drama concerning the shifting power and positioning of the two markets with regard to one another, in practice both are deployed by the same agents as part of their standard business operations; and, that the degree of monopoly over prices is never really weakened by competitive sales but only differently administered (art does not compete against other art in arriving at its price; it is only ever a question of the markup).

Identifying art's financiality with sabotage enables yet further characteristic features of art's current institutional ethos to be systematically accounted for:

#### financialization of art

— Since sabotage is a necessarily social act of institutional ordering and exclusive privation, capitalization cannot be analytically or practically separated from social organization. In particular, wealth accumulation is not analytically or practically distinct from symbolic, cultural and technical power. The integrity of political economy proposed by Nitzan and Bichler's theory of capital power thus dispenses with the explanatory categories established by Pierre Bourdieu of symbolic or cultural capital, or of direct and indirect capital, which presume a difference in kind between economic capital and social capital where the latter is mobilized in the service of the former.<sup>31</sup> Rather, and as art clearly instantiates, prices are correlated at once and necessarily with cultural or symbolic institutionalization. “Values” of many kinds are intimately coordinated in a nexus or complex that integrates meaning and its (dis)establishment, “intellectual property,” social status, money, price-setting mechanisms, and so on. Art prices thus rescind the “Nothing But” paradigm, in which the value of art is determined simply and exclusively by its price.<sup>32</sup>

— Art's marketization is constituted by its financiality, without reference to its production, or the basis for production, or even its products. In particular, art's marketization is not an issue of commodification, or of art's content. The influential Marxian disputes on this identifica-

tion result from an anxious recognition of the historical error of art's commodity status in contradistinction to another kind of production that would somehow free it from its marketization. In this they base art in production—perhaps even the generalized production of industry at large—and look to surpass art's financiality for this reason. However, capitalization qua sabotage is wholly indifferent to production: it makes no odds to capitalization *how* or *why* production takes place, only that some production is to be institutionally affirmed and others sabotaged (thus reducing industry overall). Whether or not art is a commodity is no issue for its capitalization, the question having no traction on its financiality.

— Similarly, looking to the (individual or collective) artist as the basis and condition of art in need of support against the depredations of marketization and institutionalization (inflicted by those very markets and institutions) is an appeal to a return to production as the basis for art's value. When such appeals act as a moral vindication of the ethos of art's financiality (selling the artist's work is for the benefit of the artist), the artist acts a compensatory fable for the continued sabotage art's institutional capitalization inflicts on general production. Art's amorous ethos looks to individualize and give alibi to ownership-sabotage by configuring the artist as a unique producer of original works who, on the basis of their putative

autonomy, is then a legitimizing figure of highly monopolistic production that is itself emblematic of the configuration of business-sabotage contra social industry.

— The now standard critique proposing art to be irreducible to capital and the latter's culture because of art's unproductivity, dejection, non-performance, failure, useless expenditure, and so on (in short, the Adornian-Beckettian-Bataillean repertoire) advocates a cultural determination of art qua sabotage. Accepting this "Hostile Worlds" paradigm of art complements art's financiality even as these counter-capitalist theories claim to contend it. These institutionally stable discourses thus take a leading role in the justification and legitimation—the remoralization—of institutional sabotage, most notable perhaps in the support they give to the highly concentrated monopolies of art already in place and the prevailing social power represented thereby. The continuity of interests between financiality and such prevalent critical claims is evidenced by the their centrality in the marketization of art through theoretically-informed journalism.

If it's a commonplace that art's financiality damages a more general proliferation of "art" simply because the art market excludes more art than it includes, the analysis proposed here offers a different, specific determination of the damage inflicted by art's financiality: it is a sabotage of art as a part of general

production, as industry. Art's price indexes the power of such sabotage in the terms set out by that sabotage. Art's capitalization is not then predicated on aesthetic-artistic determinations but sociological-financial power; or, at least, the power concerns of institutional capitalization determine its aesthetic-artistic interests. Art's amorous/erotic ethos is a crucial medium of transmission between the two: the implementation of power-sabotage is authorized by the common yet unaccountable enactment of the love of art, which in any given case is an irreducible element. Such institutional power is on the one hand fashion within art, in which every party looks to every other for an unaccountable and otherwise criteria-less validation of what counts as worthwhile art. And on the other hand it is the prevailing institutional insistence on presenting work of putative "quality" and "value." The assumed obviousness (and consequent consent) enforced by such terms inflicts in morally protected form the social sabotage of a power that need not account for itself but is simply occasioned by its claims on/through art.

The love for art declared not only by collectors but also by any of its agents is the subjective, privatized account of such a morally protected sabotage power. It is an ethos. While such power equal to capitalization, and thus finance, is perhaps most evident with the collector-dealer nexus, where monetary transactions are most palpable, it is by no means restricted to these actors since capitalization is a matter of general social ordering organized through private ownership. The reorganization of power legitimized through art's amorous ethos has both subjective and public

aspects of its privatization, which are interrelated. The subjective account requires one last visit to the derivation of price-setting as institutional sabotage.

Given that art has "little intrinsic worth" in terms of material costs,<sup>33</sup> art's financiality is only another way of saying that prices are set almost entirely by its mark-up.<sup>34</sup> If one of the standard puzzles in art-pricing is how to justify prices in "fundamentals" beyond hype and risk, Nitzan and Bichler's derivation of pricing suggests that prices *in general* have no foundation in objective conditions such as production but are predicated only on convention (historical earnings and a standard rate of return) and a subjectively determined speculative zeal or positioning, which is a trade-off between hype and risk above a standard rate of return.<sup>35</sup> Moreover, while the sabotage business inflicts upon industry in general is a consequence of sectorial-collective sabotage (outlined above for art as the appeal to "quality" and "excellence"), that sabotage is nonetheless undertaken for earnings made by *private* ownership and is exclusively against industry. There is then a private, subjective correlate to the sectorial sabotage of capitalization and, in particular, its positioning. When speculative zeal is low (hype is low or outweighed by the risk coefficient)—as when markets contract or, with art, the speculative interest is directed towards art that is not secured by power (or reputation, another name for sectorial sabotage)—the general name for this private, subjective correlate is fear. When hype is high or outweighs risk—when positioning is highly positive, as it is with blue-chip art—the received name in art's ethos for the private subjective dimension of sabotage is love. Love completes the logic of the privatizing

sabotage of production in general; it is the confirmation of power over the social order through capitalization pursued through institutions. Love is but the private, subjective—and therefore capricious, owned—positive positioning of art's capitalization.

The love of art is thus still a “source of legitimacy” for empire-making allied to capitalization; it is how sabotage can be privately and publicly vindicated.<sup>36</sup> Looking at the recent history of this socio-cultural privatization, the political economy of culture, in Europe and North America, it is clear that the hierarchies ascribed through such territory-building projects have dissipated to a major extent through the reorganization of fiscal power mechanisms at a transnational scale, prioritizing revenue for the type of finance that works beyond the simple philanthropic, charitable gestures of previous decades, and beyond the clear territorialization of ownership. Love has no borders. Playing the risky game of buying and selling art not for profit but because you love art and are perhaps addicted to its irrationalities and impulses in some way is a sure fire method of distracting a public gaze, which accepts the distinction between capitalization and love, from questions concerning the deep inequalities caused by your wealth accumulation or indeed the investments you may make in order to produce that wealth. Such disconnection between normative investment and return methodologies and the practices of the contemporary art market leave stranded a welfare state model of public art beneficence, which the funders are simply unable (though of course not unwilling—in fact have no choice but) to compete with. This suggests a marked shift in the modes through which art is distributed and

displayed, and accounts for much of the pandering and groveling that takes up an increasing percentage of the time of all publicly-funded galleries and museums. The sheer fact that “public” art museums and galleries in many parts of the world are now being predominantly funded by private donation attests to this. Once the imbrication of private patronage in spaces once deemed ideologically public is complete it becomes clear that contemporary art, its production and curation, becomes an advanced mechanism of experimentation for the sabotage of (ideologies of) access and equality.

Taking art's institutional capitalization to be a mode of sabotage vectored/legitimized through an amorous/erotic ethos then permits a number of medium-term future scenarios for the political economy of art and the privatization of care to be anticipated. Though practically-integrated, these transformations can be thematically demarcated as follows:

I

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**capital**

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Despite the claims of the art investment sector that it is counter-cyclical or uncorrelated to the movements of broad equities markets, the art market is entirely dependent on the available cash flows or liquidity available to higher-income earners.<sup>37</sup> Two schematic scenarios can then be put forward for the decade from 2012, depending on the fate of the finance sector and private wealth accrual in the period.

(i)

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an increase in liquidity (which is not to say a strengthening of wider economies) will strengthen the art market, which will be most ostentatiously marked by escalating prices for blue-chip work. The “Hostile Worlds” scenario between primary and secondary markets will be resurrected, but as mock-battles because all sides will increase the power of art’s institutional capitalization against (art’s) industry. The characteristic ethos of art will concentrate power with even greater degrees of monopoly to those who are most able to love art subjectively—that is, without care for what that love means, how it is constituted, and what it more generally reorganizes. The period of the art market slump, 2009–201X, will be seen as a valuable “correction” in an otherwise continually developing market of privately recognized “quality” and “excellence.” Dominant art institutions will exacerbate this concentration of power.

(ii)

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Fragile or thinning liquidity in the coming period will result in a contraction of the total market, again putatively intensifying a conflict between primary and secondary markets but increasing their co-dependency to secure a shrinking capital base. In this scenario, power will again be concentrated but the appeal to subjectively private love as its legitimizing ethos will probably be less

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prevalent as art will seek to gain greater moral value in order to stabilize capitalization in terms other than those of wealth accumulation. Here, terms such as “quality” and “excellence” will be contested as public-collective (moral) claims rather than privatized gain, but will again, for this reason of securing power, mark the sabotaging institutionalization and marketization of art.

II

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**institutional infrastructure**

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It’s said that you can’t help who (or what?) you fall in love with. In loving art and playing safe bets, modern and contemporary art collectors mask, inadvertently or not, their worldly dealings. Sociologies of collecting, whilst often focusing either on museums and patronage or the oddities of obsessive collectors of everyday objects, throw light on the relation between collecting and forms of domination, but they do so under the terms of a type of statist thinking that the buyers and sellers of contemporary art now move far beyond. John Elsner and Roger Cardinal, for example, propose that “if the peoples and the things of the world are collected, and if the social categories into which they are assigned confirm the precious knowledge of culture handed down through generations, then our rulers sit atop a hierarchy of collectors.”<sup>38</sup> The rise of the private museum, its public accessibility, its collection built on the impulsive and quixotic taste of its owner (in fact advised by

suhail malik/andrea phillips

a group of arts consultants and public museum directors hoping to gather some crumbs), attests to a pathological and political shift from a culture of care to a culture of love within the dominant structures of neoliberal states.<sup>39</sup> If care is what the state-funded arts were supposed to do, either through psychic and experiential transformations of the viewer or through participation in programs of community cohesion, such narratives of amelioration and healing of publics have been replaced by privatized love. The private collector, making his or her mark, through the use and abuse of his/her own passions by trading art, no longer does so on the basis of a public's expectation of benefit (he is not doing it to "do good"). This is not the field of patronage developed in the industrial age of Europe and North America. Instead of a general commitment to care (however homogenized and hierarchized this system of care was), private art buyers care for their own passions and then allow the public to see glimpses of them through the gauze of mediators, arts consultants, and the like. Rather than be understood as a neo-feudal arrangement, here the previously state-organized public is demanded to share in the love of art on the terms of private corporatism. The new museum (*The New Museum?*) is identified as a location in which any civilian can participate—publicly—in the spectacle of elite spending, doing so in the sharing or appreciation of a privatized love. This endemic configuration of people, space, and shared but unequal love will be the ever more prevalent shape of public galleries and museums

over at least the next two decades as this type of inventive public-private methodology becomes increasingly necessary to maintain institutions in the wake of the decline of state funding for culture.

### III

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#### reputational venues

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If privatized sabotage becomes more prominent as the organizing principle of art and its institutionalization, then institutional capitalization and its attendant prestige- and reputation-building of art will shift more decisively to overt market-based organization—notably, from biennials to art fairs. Given the importance of prioritizing subjective positioning as a condition for art's institutional capitalization, and the importance of providing an ersatz public service, these procedures of legitimization are not conducted through the vending formats and venues themselves but the proliferation of off-site projects (entry to which is only sometimes charged). Such projects rely upon the veneer of a "Hostile Worlds" scenario internal to the primary market itself, allowing the love of art "for its own sake" to continue to be materialized and specified at precisely the point of its most intense sites of marketization. If the availability of such art fair project programs to the public is a leading factor in their presentation, the transformation of state-level organization by capitalization and its private solace again comes to the fore. The availability of art to a (bourgeois) public was

the task of the national museum and, in post-war Europe, the biennial, overcoded as these were by a pedagogic-formative command typical of modernizing industrial nation-states seeking (to project) a public base. The art fair project replaces this complex network of institutional and social care, in which culture and art might have acted as vectors of common identification, with the eliciting and adulation of private excitements; a dab of knowledge-generation in such projects allows them to also take on the mantle of cultural education from that previous formation. Yet what is public here is not a common or collective task but subjective positioning, the power of private, speculative zeal we are all permitted to occasionally taste.

## financialization of art

### notes

- 1 Graeme Wearden and Katie Allen, "Eurozone Bond Markets in Turmoil as France and Germany Dig in over ECB," *guardian.co.uk*, November 16, 2011, [www.guardian.co.uk/business/2011/nov/16/eurozone-bond-markets-germany-ecb/](http://www.guardian.co.uk/business/2011/nov/16/eurozone-bond-markets-germany-ecb/).
- 2 Noah Horowitz, *Art of the Deal: Contemporary Art in a Global Financial Market* (Princeton: Princeton University Press, 2011), 145.
- 3 *Ibid.*, 170.
- 4 *Ibid.*, 170.
- 5 *Ibid.*, 174.
- 6 *Ibid.*, 170.
- 7 *Ibid.*, 186.
- 8 *Ibid.*, 188.
- 9 *Ibid.*, 176.
- 10 *Ibid.*, 177.
- 11 Sarah Thornton, *Seven Days in the Art World* (London: Granta, 2009); Don Thompson, *The \$12 Million Stuffed Shark: The Curious Economics of Contemporary Art and Auction Houses* (London: Aurum, 2008).
- 12 Ulf Wuggenig, "Attached by an Umbilical Cord of Gold," *Texte Zur Kunst* 83 (September 2011): 56.
- 13 Suhail Malik, "Critique as Alibi: Moral Differentiation in the Art Market," *Journal of Visual Art Practice*, Special Issue on Critique, ed. Mary-Anne Francis, 7:3 (December 2008): 283–295.
- 14 Thornton, *Seven Days in the Art World*, 10.
- 15 Horowitz, *Art of the Deal*, 173.
- 16 *Ibid.*, 170.
- 17 Jonathan Nitzan and Shimshon Bichler, *Capital as Power: A Study of Order and Creorder* (London: Routledge, 2009), 153 and 183.
- 18 In order to keep the main text on topic, details of Nitzan and Bichler's argument are relegated to the footnotes with references to *Capital as Power* in parentheses. Capitalization for Nitzan and Bichler "represents present value of the future stream of earnings" (153). Price is "the unit

with which capitalism is ordered" and the "pattern of order—namely, the way in which prices are structured and restructured relative to one another—is governed by capitalization" (153). The argument in the main text depends on the following schematic formulation of capitalization (185–192, paraphrased in the following lines and in n. 34 below): representing capitalization at a certain time as  $K_t$ , earnings as  $E$ , and the rate of return as  $r$ , the formula of capitalization is:

$$(A) K_t = E / r$$

(The / operator marks a division, which finds the ratio between the quantities on either side of it. Below,  $x$  is the operation of multiplication of the quantities on either side; operations in brackets are carried out before the operator outside of them.) To take the simplest example, expected earnings of  $\square 1000$  at 5 percent interest rate over a year require an initial capitalization (investment) of  $1000 / 0.05$ , or  $\square 20,000$ . Price can be directly formulated in terms of capitalization through the example of shares. The share price for a company at a given time ( $P_t$ ) is its total capitalization ( $K_t$ ) distributed over the total number of shares ( $N$ ). The price per share is also the present value of the perpetual earnings per share ( $EPS$ ) of that company (or total earnings per share,  $E / N$ ):

$$(B) P_t = K_t / N = (E / N) / r = EPS / r$$

(A) and (B) here are basic formulas for price as the index of present value of future earnings.

- 19 Horowitz, *Art of the Deal*, 171.
- 20 *Ibid.*, 78.
- 21 Predicating price on finance reverses neoclassical pricing doctrine, which drastically changes how the relation between prices and markets are to be understood. Rather than markets setting prices, for Nitzan and Bichler



- "modern capitalists are 'price makers': they fix the price of the product and then let 'markets forces' do the rest for them" (242). It is not that market imperatives set prices but that prices "set" the market. While there may indeed be market forces, such forces are not primarily those shaping prices but rather those that prices impose on social, industrial, and institutional arrangements.
- 22 Nitzan and Bichler, *Capital as Power*, 262.
- 23 As noted, the classical doctrine of price theory has it that market pressures and competition generate the prices set by firms or competitors for their wares. However, following the work of Gardiner Means at the time of the Great Depression, Nitzan and Bichler emphasize that there are in fact "two types of prices" (240): competitively formed market prices set by standard supply and demand constraints and also what Means called "administered prices," which are typical of concentrated industries. Administered prices do not respond to market circumstances very fast (if at all) and the firms setting them do not seek to maximize their profits but to secure them. Desired profit rates are set in advance and this, in addition to "output costs," determines prices that are kept relatively stable (Apple is a good example of one such firm). In other words, administered prices are not guided by the market's invisible hand. Moreover, studies show that most prices are administered prices (n. 19, 241). Nitzan and Bichler turn to Michal Kalecki's notion of the "degree of monopoly"—the extent of control over prices—as an explanation of how and why price setting is determined by conditions other than those of market circumstances (242).
- 24 Nitzan and Bichler, *Capital as Power*, 239.
- 25 Ibid., 239.
- 26 Ibid., 228.
- 27 Ibid., 249.

- 28 Ibid., 249.
- 29 Administered prices demonstrate two business principles: (i) profit is maintained by generalizing sabotage (ibid., 241); (ii) prices are determined by a target rate of return and the cost of goods is set to meet this return. The degree of monopoly is a measure of industrial sabotage required in order to maintain a rate of return. As the phrase implies, it is a measure of power: higher prices mark a greater degree of monopoly over industry, indexing more power to sabotage. That is, the greater the markup that can be set, the greater the power of those who set it; and the contrary.
- 30 Olav Velthuis, *Talking Prices: Symbolic Meanings of Prices on the Market for Contemporary Art* (Princeton: Princeton University Press, 2005), 24–26.
- 31 Pierre Bourdieu, *Distinction: A Social Critique of the Judgment of Taste*, trans. Richard Nice (London: Routledge, 2003 [1979]).
- 32 Velthuis, *Talking Prices*, 26–27.
- 33 Horowitz, *Art of the Deal*, 208.
- 34 The complication in the schematic formulas of capitalization (A) and price (B) in n. 18 is that the future is uncertain, which means that the basic variables are in fact unknown and unmeasurable. But each variable can be *retrospectively* decomposed into the objective aspects of earnings and rate of return and, on the other hand, a speculative element that measures the degree of "expectation" that was the capitalist's projection into the future, itself composed of hype and confidence in predictions. In detail: Expected earnings are first decomposed. For the share-price formula in particular (188):

$$(C) P_i = EEPS / r = (EPS \times H) / r$$

Where *EEPS* is *expected* future earnings per share, *EPS* is *actual* future earnings per share and *H* the hype coefficient which measures

- the extent to which capitalists are investing optimistically (*H* is greater than one) or pessimistically (*H* is less than one). Whether capitalists have hyped their capitalization up or down can only be known when their initial capitalization or price is assessed against their actual earnings. The hype coefficient thus "represents the *ex post* collective error of capitalists when pricing the asset, and is revealed only once the earnings are announced" (189)—at which point hype can be measured.

Nitzan and Bichler remark two important key characteristics of hype (191): it *actively* shapes price and thus commands markets; it is not an individual intervention but a collective-sectoral coalition combining regulators, policy-makers, executives, opinion-makers, traders, and so on—a capitalist ruling elite—to push prices up or down and give confidence that such swings are justified and rationally explainable. The introduction of hype in the formulations of capitalization makes apparent that investors are not essentially reactive to market forces through pricing, as neoclassical precepts have it (208), and that prices are not automatically or mechanistically derived from earnings (just as the market does not set prices but is "set" by prices).

It is then the earnings *projections* of capitalists that are the key factor in price-setting. Yet these projections also depend on the confidence of investors in their own predictions. This confidence can be measured against a benchmark (government bonds, for example) in which a maximum certainty of a given rate of return is assumed. This is called a "risk free" rate in standard finance theory though, as Nitzan and Bichler observe, it is not explained "why it is risk free nor what determines its level" (209). By contrast all other investments have a degree of confidence that can be measured by the "risk coefficient" ( $\delta$ ) that acts as

- a factor against the rate of return in which investors have maximum confidence ( $r_c$ ). As with hype, confidence can be incorporated into the price formula (C) by decomposing the rate of return:

$$(D) P_i = EEPS / r = (EPS \times H) / (r_c \times \delta)$$

When confidence is high, the risk coefficient is close to one and it increases when confidence falls back, resulting in a lower share price (all other things being equal). The risk coefficient is not to be confused with the risk premium described in standard finance theory, which claims to measure the risk in prices and actual volatility, not speculative confidence. Higher risk premiums imply higher returns but a higher risk coefficient means less confidence and so lower prices.

- 35 The price per share is the trade off between how much earnings per share are hyped-up against the risk that the shares will not beat a standard rate of return. Actual earnings and the standard rate of return can both be retrospectively measured. Though Nitzan and Bichler do not take their argument in this direction in *Capital as Power*, the retrospectively measured "objective" factors in price-setting can be separated out from the right-hand side of formula (D):

$$(E) P_i = (EPS / r_c) \times (H / \delta)$$

Implementing this separation allows the speculative element of price-setting to be identified as the trade-off between hype and risk. Price-setting as it is formulated in (E) can be split into the following descriptive terms:

Price per share = (objective return)  $\times$  (speculative zeal)

If this formulation corresponds with a conventional sense of what

- speculation involves—the anticipatory “hunch” of the investor who follows the markets—what is telling about it is that: (i) subjective speculation “shapes” the price rather than follows it (even when there is no hype ( $H = 1$ ) and no risk ( $\delta = 1$ )), and thus shapes the future of the market (210); and (ii) speculative zeal can be given an exact measure (it is the ratio of the price per share to its actual return, which is a number that can only be retrospectively known). In the words of Jamie Searle at Citi Bank in the epigraph to this essay, speculative zeal is the “positioning” of the speculator who *shapes* the market and the future but whose “accuracy” or “distortion” of what the price should have been can only be retrospectively measured. Speculative fear is when hype is outweighed by risk ( $H / \delta$  is less than one); speculative enthusiasm is when hype outweighs risk ( $H / \delta$  is more than one). Since the future is unknown, however, confidence can never be at a maximum. And since hype is a sectoral (which is to say collective-institutional) pressure, positioning is but the shaping of price by power. It can be measured by comparing price to actual earnings, which is to say: capital accumulation, profit gained by sabotage.
- 36 Wuggenig, “Attached by an Umbilical Cord of Gold,” 62.
- 37 Horowitz, *Art of the Deal*, 161, 186, 199–201; Suhail Malik, “A Boom Without End? Liquidity, Critique and the Art Market,” *Mute: Living in a Bubble: Credit, Debt and Crisis*, 2:6, (2007): 92–99, [www.metamute.org/en/A-Boom-Without-End-Liquidity-Critique-and-the-Art-market](http://www.metamute.org/en/A-Boom-Without-End-Liquidity-Critique-and-the-Art-market); Andrea Fraser, “L’1%, c’est moi,” *Texte Zur Kunst* 83 (September 2011): 114–127.
- 38 John Elsnor and Roger Cardinal, eds. *The Cultures of Collecting* (London: Reaktion, 1994), 2.
- 39 Andrea Phillips, “Too Careful: Contemporary Art’s Public Making,” in Andrea Phillips and Markus Miessen,
- eds., *Caring Culture: Art, Architecture and the Politics of Public Health* (Amsterdam/Berlin: SKOR/Sternberg Press, 2011).