

Valuation of art in public collections, - a survey and some directions

The purpose of this informal review is to provide a very brief outline of the existing literature on the valuation of artistic property in public collections. Or rather, it should give stimulation that such study should be undertaken, and subsequently some conclusions be drawn.

Generally the need of the valuation of cultural goods in public hands is recognized, but it has almost never been done or even attempted. There is lively resistance against it in the cultural sector, and there is a general lack of method to implement it seriously anyway.

If, apart from the obvious difficulties, public artistic assets could receive a serious and workable valuation taking in due account all the implications of their cultural and sociological values and benefits, then these artistic assets would surface in the local and regional households. They would be better manageable, insurable, particularly better distributable, and all the benefits would be increased without attacking the sensitive cultural and spiritual values ascribed to works of art.

Why yes, and why no

The valuation of artistic property in public collections, either state owned works of art, or private and corporate collections made public, is increasingly becoming a topic of discussion.

In many publications on this matter, it is duly recognised that most publicly owned artworks are not endowed with a valuation. Occasionally, when these are sent on loan for an exhibition, they are given an insurance value covering the time when they are not on their own premises, but overall the vast majority is not insured, nor has a realistic valuation.

Museum curators do not seem to be very positive about the valuation of the objects they have in their care. There is a short German article from the Saxonian Museum Organisation (including the world famous Dresden museums), which is quite clear on the matter. It has an irresistible title that appeals immediately to any passionate valuator: *'How much is the Sixtine Madonna worth?'*¹. There is, however, no answer to be read in the pamphlet. We learn instead that in recent years (*ante* 2009) the collaborators of museums are pressed to provide valuations of the assets they have to take care of, and that this is done in many ways, but always without a clear system or method and mostly in a very individual and improvised way. The article then goes on that there are various ways to approach the matter, but that it does make no sense at all to proceed with any of them, because no good valuation techniques exist which can go beyond the mere banality of a market value. It is also argued that the financial crisis is proving that financial and economical models are, in any case, very weak and full of mistakes. So it does not make sense to apply these models to a subject matter which is not understood, and even more without any valid and proven method. The article concludes: *'...stop the valuation of cultural goods because it is false, wrong, and alien to the field of arts'*.

They are, to a large extent quite right. When financial schemes are imperfect, when the valuation methods are imperfect, then there is no reason to make a costly and useless valuation. The Saxon Museum Organisation gives all the reasons why many art historians and other museum people are so strongly against any economical valuation of the assets. It mainly comes to this: One scale of

¹ *Wie viel ist die Sixtinische Madonna wert? Eine zweite Stellungnahme des Vorstandes des Sächsischen Museumsbundes e.V. zur Bilanzierung von Museumsgut im Rahmen der Doppik vom 3. Dezember 2009.*

value (for example trade value) cannot ever express another, distinct, scale of value (for example cultural value).

This is, in itself, quite correct, but not to the point: Distinct valuations scales, like trade value and cultural value, can, for some specific purposes, be expressed in a common denominator. That does not negate importance to cultural or spiritual value but makes it to some extent workable.

Nobody, furthermore, asks to apply these data indiscriminately. No valuation is not a solution either. Instead this state of affairs should be a strong reason to design a valid financial structure with good and workable valuation methods.

There are ever more publications, papers and lectures, which pinpoint the necessity to tackle the problem, noting, with the Saxonian museums, that the normal 'market value' in the particular case of works of art is certainly not covering the whole range of values and benefits, which are inherent to works of art in public collections. Not only have many of these artworks already an above-normal market value because they are frequently of very good or even outstanding quality, but such works of art offer many other induced benefits, ranging from touristic appeal, enhanced image perception for the locality where they are kept, improved education possibilities, to the custody and definition of historical identity and many more. Some of them we will touch upon in this survey. Such induced benefits, vague, elusive and distinctly *soft economy* as they may appear, in many cases do involve hard currency, and also lots of it: Imagine removing the 'David' by Michelangelo from the Florentine 'Accademia', the Mona Lisa from the Louvre and the Nightwatch from the Rijksmuseum in Amsterdam.

Famous artworks attract vast amounts of tourists who, in the course of their visit, spend money for the most varied purposes, often not even remotely art-related.

But also the less well known artworks attract visitors and in all Europe the local museum, when well managed, is a source of income for the territory. Some lesser-known artworks may attract perhaps less tourists, but in some cases these visitors will be more cultured and often more wealthy, resulting in a better quality of spending.

If also such local holdings would have a balanced valuation of their economical value, meaning here the normal market value plus the induced (actual and potential) cultural value in terms of tourist spending, education for the local and visiting children and adults, image for the region and so forth, then these artistic holdings would be perceived under quite a different perspective. Policy makers and regional planners would be more aware of them and their inherent beneficial quality would be more readily be seen and exploited. Rather than being perceived as a cost, they would become an asset, demanding a rational policy to maximise the direct and indirect economical benefits, their educational and cultural benefits and their effect for the promotion, also the economical promotion, of the region. As an example of a very remote effect, even when it will surely not be the main reason that an industry will invest somewhere, a functioning cultural background does make the region more attractive.

Museum directors would not be so negative either, as it makes a difference whether you are perceived as a useless cost-factor, or as to caretaking of various millions of economical stimulation. The arts can illustrate their economical importance having figures applied to them, and that makes them also more defensible. When this is well managed it enhances, rather than diminishes, the possibilities for the Arts to play the peculiar social, cultural, religious, philosophical role in society, as is their proper meaning and main *raison d'être*.

Articles pointing to the need of quoting on publicly held artworks: Social, cultural and economic values of cultural properties.

There are quite a lot of introductory articles, essays, discussion papers and so forth, which acknowledge that cultural goods have a value beyond their market value, and that this value should, in some way, be measured. There is also some literature for Switzerland and recently a overview from the Getty Foundation was published².

It is recognised everywhere that such a valuation would not be an easy task as there are very many factors involved, often difficult to define. Economists, or juridical scholars often write these essays. Rarely, it appears, are they written by someone from the artistic or cultural corner of society. Their standpoint seems to have been already firmly worded by the Saxonian museumboard.

As *pars pro toto* we can refer to a somewhat longer essay by Arjo Klamer³, an economist who had some direct experience with the practical implications and complications of 'cultural value'. Like many others Klamer gives, first of all, a survey of the state of affairs in the field we are investigating, acknowledging that cultural products have a cultural value, over and above their sheer market value, and that cultural value has in its turn an economical impact. Hence the cultural value should be weighed in some way within the economic picture. There has been a gap between what he labels as 'economists' (looking at the monetary aspect) and the 'culturalists' (looking at the cultural, spiritual, intellectual impact). He wants to blend the two aspects into '*economic cultural*' vision.

Therefore he distinguishes between economical, social and cultural values and then sets out to give a interesting and sensitive survey of the many ways economical and cultural standards may interact in these three categories.

Beyond that point there is, however, a full stop. He quite rightly claims that cultural goods have a huge added value, but he does not provide tools to estimate that value, the penchant being that the economical value is one thing, and the cultural value another, and that defining the cultural value in an economical way would be missing the point about it. 'Goods function mostly outside a market situation', as he puts it.

It seems that the wide distinction that Klamer makes between economical, social and cultural values as applied to Art is, apart from being obvious, indeed a useful grouping of the categories that influence the perception of works of art.

It would, however, be most convenient if such categories could be unified in a value system that would make them workable and predictable, at least to such an extend that the functioning of art in society can be managed in a more efficient way. That the cultural and social value are misty and difficult to define, - even just in words, let alone figures, - does not mean that we have to stay put

² Heiko Friehe, *Bilanzierung und Bewertung von Kunst und Kulturgütern bei corporate Art Collections*. Art Value, 11 7 2013

Stephan Glanz: *Bilanzierung von Kultur- und Naturgütern (Heritage Assets), Internationale und Schweizer Harmonisierung in Sicht?* 2012

The Getty Conservation Institute, *Values and Heritage Conservation*, Research Report, Los Angeles 2013. Here in particular: David Throsby: *Economic and Cultural Value in the Work of Creative Artists* (pp. 26-31) and an updated bibliography on 'cultural values'.

³ Arjo Klamer, *Culture and Public Action*, Edited by Vijayendra Rao and Michael Walton, 2001.

and be resigned with this situation and see how the ‘economists’ or the ‘culturalists’ every time pull out the ‘Jolly’ of their opinions and block the discussion. Just to talk of ‘*cultural capital*’ is no solution either when this is not defined in operative terms, which can be shared with other disciplines and applied to reality.

Practical proposals.

1. *Bewertungsmodell*, Bärbel Held.

There is an interesting essay by Bärbel Held⁴ which goes a step further and really provides some indications on how to actually proceed with the valuations of artworks in public hands, and indicates which valuation standards are to be applied for their immaterial, public value. The author has also interviewed museum people on specific problems, but overall Held’s is an approach from the auditing-view, with the advantages and restrictions that such a particular standpoint brings.

In her discussion paper, Dr. Held presents a set of criteria to be applied to the valuation of cultural objects in public hands (not only the traditional *artworks*), and she also indicates how to balance each of these criteria differently within every valuation of each specific class of items.

The proposed approach can be severely criticised under many different aspects, but the merit of the study is that it actually goes beyond mere statements of general intention and provides a concrete strategy that can be criticised and therefore improved.

Dr. Held first describes the problem as we know it, and gives definitions of what a museum exactly is from a legislative point of view, and precisely what can be considered a cultural item to be valued in this context. Usefully, she considers works of art not only in the sense usually applied to them, but also libraries, botanical and archaeological collections, folkloristic collections or scientific instruments. She goes into some aspects of communal bookkeeping and then sets out to design the scheme of valuation criteria that interests us now.

It is a rather sophisticated approach, which merits more attention, but it can be condensed as follows: The factors that constitute the value of an object in a museum are the *market value* and the *public value* (Klamer would there say cultural and sociological value).

The market value she sees as defined by: authenticity, conservation, signature and market situation (this seen as it being fresh for the market, demanded by the market, in fashion or not). These characteristics get a score of 0 to 5, subject if these aspects are positively there (5) or absent (0). The specific constituents of the *market value* as listed by Dr. Held are poorly defined (and one realizes that there is not a hands-on Art valuator in her team), but for our purposes we are now much more interested in the valuation of *immaterial worth*, and her general approach. The criteria for this *public value* are indicated and each is again valued with a score from 5 to 0 depending on the degree these apply to the object. The first criterion is called: ‘Optionswert’, something like ‘*availability*’. The score for this is determined by the object being freely accessible for everyone (5), less accessible or inaccessible (0).

Then ‘Existenzwert’, - a somewhat vague category, valuating the simple fact that an object exists as a positive event, - this is seen to apply for Historical Buildings. It also describes whether a work of art is very rare or unique.

Further ‘Vermächtniswert’ which could be translated with *Heritage value*, the value an object may have for new generations, even when such a value is not clear or fully developed right now.

⁴ *Bewertungsmodell der musealen Kunstgegenstände von Kommunen*, HAW im Dialog – Weidener Diskussionspapiere No, 22, 2010. See for the same subject also the article by Glanz, note 2.

Next comes 'Prestigewert', - *Prestige*, obviously, - seen as an enforcement of the cultural identity and appeal. The last category is 'Bildungswert', the *educational value*.

The interesting thing is that she gives an indication that such criteria should receive a further different weighting in relation to the class of object to be valued. This means that if, for example, one of the categories, like 'Heritage value', gets the full score of five points, these five points get an importance attributed within the general score that is expressed as a percentage. So 'Heritage value' may, under certain circumstances (like archaeology), weigh for 20%, and then these five points add 1 point (20% of 5) to the general score. She differentiates between almost any class of cultural object that can be held in public hands.

We can, as a quick glance, consider briefly what she says for Old Master Paintings, as this is a common and well visible class of public artefact:

She gives the points of the *educational value* of OMP a weight of only 10%. Why? Because you can educate the public just as well in front of a copy (here I only illustrate and do not discuss the approach).

Prestige gets a 20% value, as the possession of certain artworks has a positive impact on the prestige of a city or a region.

The *Availability* gets only 5%, as this is only relevant, she says, for important artworks, otherwise they can be replaced by others from the same class.

'*Existenzwert*' has, not surprisingly now, a similar low score.

The *heritage value* of OMP gets also 5%.

It is clear that there could be a storm of criticism on the way the criteria and their weighting is proposed. This is, as noted above, also true for her approach to marketvalue, which is defined by the categories *authenticity*, which gets 15%, *conservation* 15%, the availability of the *signature* also 15% (down with the Mona Lisa!) and *market demand* as 25%.

The points thus collected (combining the score of Public Value and Market Value), get, for the specific purposes of the essay, confronted with the so called 'Hessian valuation scale', a set of €-values which differentiates between value A (>€ 50 000), B1-B6 (<€ 50 000-€ 2 750) and the value under € 2 750. Sixteen to twenty points obtain a value of € 7 500, to give an idea.

As said, this is not the place to go into the merits of each component. When applied to some practical examples it falls immediately short and one understands the scepticism of the Dresden Museums and their Sixtine Madonna. To be fair, it seems to function better for unusual objects, like folkloristic or botanical collections.

The author also states that important works of art should be valued by a specialised surveyor and that, should an insurance value already been given, this should be taken into account. This saves important items from valuations standards such as illustrated here above, but leaves the very problem of the valuation standards for important works of art undefined.

There are many more setbacks, not least because she combines the 'market value' and the 'public value' in her points-system, which grand total is then confronted with the fixed monetary scale of the 'Hessian model', thus receiving an automatic valuation. This can only go wrong.

Let us concentrate instead only on what we can use. The positive point of this discussion paper is that it correctly recognises that:

- Works of art in public hands have a *market value* and they have a *public value*.

- It also recognises that market value and public value are determined by diverse criteria.
- The author proposes definitions for some of these criteria for both market value and public value.
- Lastly it states that within each class of cultural artefacts these criteria should be weighted differently within the final valuation.

Focussing on our specific interest can also indicate a few things, which we would rather *not* do:

- Distinguishing between market value and public or cultural value is right, but this distinction fails to be effective when these two categories then get dumped together in the same value-related points scale.
- A one sided approach won't do, not even with an occasional interview outside the professional boundaries. The methodology needs constant and fundamental contribution from many and various disciplines to be effective. The auditing point of view is essential to have a workable set of figures for the balance sheet, but the valuator of artistic property should make sure that such figures also reflect a market- and cultural reality. Planners for infrastructures, for economical stimulation and development have to indicate what they perceive as useful, and the same applies for the educational sector. Sociologists can help to calculate in some way the impact of the presence of artistic heritage on the territory, and so on. Art historians with various functions within the cultural sector should be also a prominent part of the team.

The Rics paper on Historical buildings

Valuation of historic buildings

RICS information paper

This paper is well known to all readers of this text, and therefore it does not need a summary. Sarah Buxbaum wrote, together with a team, a lucid introduction on the various specific aspects in the valuation of historical buildings. Some of these elements are very close to the problems we encounter. Interesting is for example that some of the economical setbacks of historical buildings, like higher restoration costs combined with less possibility to adapt the building to a rational economical management due to legal restrictions are often balanced by an enhanced perception of its value. Apart from a number of useful practical hints and observations, which are also effective to the praxis of the valuation of artworks, she gives a set of alternative valuation methods that are useful in our case: Cost-benefits analysis and substitution-pricing mechanisms. The latter splits up in *Contingent Valuation, Travel cost Method and Hedonic Pricing*. All these factors are relevant to our theme. We could have a closer look at Contingent Valuation Methods (CVM), which, as we shall see, probably should incorporate Travel Cost Method and Hedonic pricing into its techniques. CVM has already a solid history and methodology and there has even been some assessment on how it functions when applied to the Arts⁵.

⁵ Doug Noonan, *Contingent Valuation Studies in the Arts and Culture: An Annotated Bibliography*. The Cultural Policy Centre, University of Chicago, February 2002, gives a commented survey of a part of the literature up to that date.

2. Contingent Valuation methods.

David Throsby, who is one of the more important scholars of Contingent Valuation Methods as applied to the Arts, picks up the tread after a pioneering article he wrote together with Withers already in 1983, at that time trying to set up a series of valuation methods applied to the particular circumstances in Australia. In a more recent article relevant to our investigation⁶ he acknowledges that progress has been made in the general theory of Contingent Valuation Methods (CVM) but it's applications to the arts are still minimal.

Contingent valuation method is, for example, to create an imaginary marketplace and try to find out how a particular item would be received, - used, visited, sold, seen, restored, - whatever we may find useful to measure an economic importance. The valuator may approach groups of people and ask their 'Willingness To Pay' (WTP) for the use of an artistic item. This puts of course the question of how well such a group of test persons is informed, how many specialists should make part of it or how many 'normal' people. Such considerations are confronted in the more general theories on CVM and we will leave them now out.

The WTP is quite a useful way of finding at least an indication on the potential sociological and cultural performance (reception, influence, visit and attractions) of a work of art in a given environment. It goes even very well with the performing arts⁷.

But it does not provide acceptable and concrete feedback on general cultural importance, such as the value of T.S. Eliot's 'Waste Land' for the early twenty-century western state of mind. In some cases low economical value can be associated with high cultural value. That means that Contingent Valuation Methods, when identified and restricted to standard Willingness To Pay investigation, does not cover the full spectrum of cultural values. The author recognises and stresses this point, but he does not solve the question of *how* the more ethereal, spiritual and in any case vaguely defined cultural benefits of artistic items should be caught by a valuation, other than by using the WTP method⁸.

Throsby adds that cultural value, even when it is not wedged in a figure framework, can nonetheless influence a planners or budgeters' decision process. When two projects regarding a cultural item or items have a similar economical benefit, but one has a greater cultural impact, than reasonably the one with the larger impact will, or should, be chosen. *'It this is so, there is a challenging task ahead, namely to work out whether methods such as CVM and other approaches can be extended to account for these wider dimension in their application to art and culture, or*

⁶ David Throsby, *Determining the Value of Cultural Goods: How Much (or How Little) Does Contingent Valuation Tell Us?*.- Department of Economics, Macquarie University Journal of Cultural Economics 27: 275–285, 2003. Kluwer Academic Publishers

⁷ Alan S Brown and Jennifer L Novak, *Assessing The Intrinsic Impacts of a Live Performance* by 2007. This is a long and thorough study, employing various research methods to investigate the perception and the consequences on public behaviour of some performances. It does not, however, try to quantify moneywise this impact. The absence of such an approach does not help planners to formulate a well-directed stimulation policy, and keeps the Arts on the defence in a reservation.

⁸ Loris Landriani, Matteo Pozzoli, *Management and Valuation of Heritage Assets. A Comparative Analysis Between Italy and USA*. Springer (Briefs in Business) 2014, apart from a useful overview of the different accounting approaches, employment and management of cultural assets in Italy and the U.S., briefly discusses some valuation methods that can be applied for the economic measurement of cultural goods (Historical cost, Fair value, Contingent Valuation, Professional Assessments, Notional Value, cf. chapter 5 pp. 99 ff).

whether entirely new techniques of measurement, perhaps adapted from other fields, need to be developed.'

That's the task indeed. There is much work to be done in the field of alternative valuation techniques. It appears that the 'contingent valuation methods' are a very good start for further investigation in this direction. The CVM has for some decennia been studied and improved and there is a good body of theoretical and practical exercise here waiting to be applied to the Arts⁹.

Conclusions and ideas.

- There is resistance in the cultural field against the valuation of art objects in public hands.
- This is also induced by the fact that there are no appropriate valuation methods that take into account the whole array of indirect and direct cultural benefits, and their economical implications in various scenarios.
- That these cultural and social benefits, together with their economical implications exist is beyond doubt. There is even reason to think that these induced benefits are rather large, also the direct and indirect economical effects,.
- Would there be a system that describes the socio-economical impact of publicly owned artworks, then it would help to let surface these objects, to integrate and manage them much better in social and economical planning. It could be a stimulation to take better care for works of art and it would enhance their functioning in society.
- In other fields, the economical valuation of intangible goods or aspects has been tackled. There are various non-classical, well-studied and tested valuation methods that can be applied to the Arts. One of these, and promising to the art world are the CVM (Contingent valuation methods) and the WTP (willingness to pay) investigations. These should, however, be reformulated and adapted and could then be a corner stone for a new approach to value indirect cultural and social benefits.
- To be successful in the art valuation CVM should go beyond the WTP approach and probably integrate Travel Cost Method, Hedonic pricing and maybe other, perhaps even new methods into its techniques.
- It may be a good idea to make the categories economical value, social value and cultural value, - each category needs valid sub-categories and specifications. These sub categories should be formulated in such a way that they do not overlap.
- It might be a good idea to study and define a catalogue of different factors balancing in different ways in different areas of valuation of different cultural goods.
- It may not be such a good idea to apply the outcome of this to a pré-fixed financial scale.
- It also may not be a good idea to mix up, surely not in an early stage and perhaps at any stage, market value and public (social, cultural) value.
- As the economical valuation of intangible benefits takes into account a large array of fields that goes from cultural heritage, to tourism, to education, to image building ending with spiritual values and the self-definition of society, it would be advisable to have representatives of these fields indicating what kind of facts and values they appreciate in the artworks.
- Any outcome of an integrated valuation of public owned artworks should have a concrete application for each of these fields. Therefore, to avoid that further study of induced value of artworks provides useless figures with no relation to reality, there should be a constant

⁹ Peter A. Diamond, Jerry A. Hausman, Contingent valuation: *is Some Number better than No Number?*, The Journal of economic perspectives, Vol. 8 n. 4 (1994) pp. 45 - 64

feed back and testing, both in the early process of setting up rules and criteria, as in their practical application.

- The formulation of criteria and methods for the valuation of public owned artworks will have a positive effect on the classical techniques of quoting of the 'normal' market value. Auction results are often taken as an objective *fair value*, but may be the result of emotional bidding driven by non-economical factors. There is also an irrational, cultural value in works of art incorporated in the economical value of artworks that are traded on the market. The more we learn to understand the economical valuation of cultural and social benefits of publicly owned artworks, the better the process of value-formulation of 'regular' works of art can be understood as well
- This study should be undertaken within a European perspective. The problem is common for each country and a combined effort would also result in a combined policy, which would be more efficient than local stop and go. That will help to implement any positive outcome it may have.