

PRICING GENIUS: THE MARKET EVALUATION OF INNOVATION

DAVID W. GALENSON*

University of Chicago and Universidad del CEMA

SIMONE LENZU

University of Chicago

Submitted September 2015; accepted March 2016

Economists have neglected a key issue for understanding and increasing technological change, in failing to study how talented individuals produce innovations. This paper takes a quantitative approach to this problem. Regression analysis of auction data from 1965-2015 reveals that the age-price profiles of Jackson Pollock and Andy Warhol – the two greatest painters born in the 20th century – closely resemble the profiles of the two artists' careers derived both from textbooks of art history and from retrospective exhibitions. The agreement of these sources confirms that the auction market assigns the highest prices to the art that scholars judge to be the most important, and examination of the artists' careers reveals that this art is the most important because it is the most innovative. These results lend strong support to our understanding of creativity at the individual level, with a sharp contrast between the extended experimental innovation of Pollock and the sudden conceptual innovation of Warhol.

JEL classification codes: J01, J24, O30

Key words: creativity, technological change, hedonic regression analysis, life cycles

* David W. Galenson (corresponding author): Department of Economics, University of Chicago, 1126 East 59th Street, Chicago, Illinois 60637, USA; galenson@uchicago.edu. Simone Lenzu: Department of Economics, University of Chicago, 1126 East 59th Street, Chicago, Illinois 60637, USA; lenzus@uchicago.edu. We thank Julio Elias, Facundo Gomez Minujin, Jorge Streb, an anonymous referee, and participants in a seminar at Universidad del CEMA for comments on an earlier version.

I. Introduction

There is, it seems, a graph of creativity which can be plotted through an artist's career.

Sir Alan Bowness (1990)

Both theoretical models and empirical studies consistently identify technological change as the most important source of economic growth: Richard Nelson (2012) recently declared that "There is no informed arguing against the proposition that technological advance is the principal cause of long-run productivity growth." Concerning the source of technological change, Kenneth Arrow (1962) observed that "There is really no need for the firm to be the fundamental unit of organization in invention; there is plenty of reason to suppose that individual talents count for a good deal more than the firm as an organization." For this reason, Simon Kuznets (1962) called for more study of creative individuals, noting that "we need far more empirical study than we have had so far of the universe of inventors; any finding concerning inventors, identified in either uniform or diverse fashion, would be of great value."

Although more than five decades have passed since Arrow's observation and Kuznets' appeal, few economists have responded to them. Instead, the study of individuals effectively remains a disciplinary taboo for economists, and the processes by which talented individuals make innovations largely remain a mystery. This paper will demonstrate the gains from studying important individual innovators, in an industry in which analysis of the market valuation of their products leads to fundamental new insights into the processes of creativity. The innovators in question are great painters, and the market is the public auctions in which their works are bought and sold.

II. Importance in art

Perhaps the importance that we must attach to the achievement of an artist or a group of artists may properly be measured by the answer to the following question: Have they so wrought that it will be impossible henceforth, for those who follow, ever again to act as if they had not existed?

Walter Sickert (2001)

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