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Motivation for research into Cantillon effects on art market prices

The notion of Cantillon effects posit that an increase in the aggregate money supply causes an increase in asset prices (real estate, stock and art markets). Following this notion then is that expansionary monetary supply does not create as much real economic growth (increasing output prices which leads to more investment and employment creation) than would be expected, as there are leakages into asset prices and not just output. Therefore, the motivation for this research is two-fold, one is technical and the other is philosophical.

1) *Technical.* There has been very little empirical research as to money supply effects on asset prices. To this end it is a technical problem to solve. Can we find causality from money supply increases to asset price increases?[1] Most work looks at changes in Fed Funds rate effects on the stock market, i.e., Callahan and Garrison 2003, however not at money supply effects on asset levels. Art is not part of the chain of production so is perhaps a more "pure" asset class to isolate for this analysis, see Weber 2011.

2) *Philosophical.* It is proposed that monetary policy intervention can be regressive. Deductive reasoning states that the purchasing power of money is reduced during expansionary monetary policy as more money is chasing fewer goods. Although the unprecedented monetary expansion since the financial crises of 2007-8 has not resulted in high officially-measured inflation, reasoning tells us that consumer prices are higher than they would have been absent monetary easing. At the same time, if proven, asset prices are increasing as well due to money printing. This means that those with less disposable income are having to pay higher consumer prices than they would have had to pay absent monetary expansion and those with more disposable income are able to take advantage of asset price increases which are greater than they would have been absent intervention. This means then that monetary policy is regressive in that the 'poor' have to pay more for

[1] That Cantillon effects are real has entered conventional wisdom but not economic science, see e.g., Sharma 2015. The Fed (Kashkari 2017) is acknowledging that monetary policy can create asset bubbles, but as of yet (that I know of) has not conducted any empirical research into the phenomenon.

necessities and the ‘rich’ are able to invest in appreciating asset markets. Proving Cantillon effects causality on the art market might help illustrate the regressive effects of monetary policy.[2]

References

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[2] Our research on Cantillon effects therefore is in a sense a contribution to the emerging subfield of economics called “econogenics”, which is the study of harm that economists do (see DeMartino and McCloskey, eds. 2016).