

## LECTURE TO THE CHINA-EUROPA FORUM, TSINGHUA UNIVERSITY, BEIJING

8-9 JULY, 2010

### **“The concept and the dynamics of the art market. The creation of the art markets – the western experience”**

- Outline questions
- Discussion topics
  
- Here are the proposed questions which are similar to those discussed in Thessaloniki in March 2009
- However, for this conference I have updated a few facts and refined some of my opinions based on further research
- Therefore, I will make comparisons between my findings where new and where emphasis is needed
- My overall aim is to provide an analysis from the viewpoint of creation/production, the consumer and society
  
- I note that the underlying theme of this pre-lunch session/Topic A is to review the development and exchange between China and European art since the 20th century
- That is, based on differences in historical background, geography and culture, with the emphasis on evaluations and suggestions from others
- The discussion method is for the Chinese members to comment on the development of European contemporary art, and the European members to comment on the evolution of Chinese art since the 20th century
- I have taken account of this in my research though this has a naturally Western bias despite grateful help from Chinese art market associates
  
- I am grateful for the translator transmitting my analysis which I have tried to keep simple
  
- **What is the nature of the art market crisis?**
  
- Sotheby's share price v NYSE index 2005-10
  
- When invited to speak in Thessaloniki in March 2009 I questioned whether art and its market were in a crisis or whether this was a necessary or even helpful adjustment
- The financial crisis which started in October 2007 and bottomed out in March 2009 was not the worst recorded stock market fall but certainly the most internationally televised
- It followed a period of high investment in return for cheaper goods transferred between West to East, especially since China joined the WTO in 2001, capturing the move towards trade liberalisation since the 1950s and globalisation from the mid 1990s
- This significant trade entry provided an excess of cheap money that ended being unproductively invested
- In many Western countries this asset price inflation is now being unwound at the cost of higher unemployment and social problems
- As always the danger is that countries close themselves to international trade to protect their citizens in the short term

- Fortunately, so far this is not apparent
- Here is Sotheby's share price plotted against those listed in the NYSE index on which the company is registered
- Since Sotheby's internationally trades about an 1/8 of the world's art by value it can be used as a bellwether of the world's art market
- Clearly, the downturn in Sotheby's share price began around the same time as the financial crisis triggered specifically by the failure to sell some guaranteed artworks in late 2007 (a system where the owner is guaranteed a sum of money to induce putting an artwork up for sale where the profits above a certain price are shared between seller and auctioneer)
- Ironically the unsold guaranteed artwork that triggered the 35% fall in Sotheby's share price was by Vincent van Gogh who was the artist at the centre of the late 1980s art market boom and subsequent bust
- World international art trade turnover 1962-2009
  - As it turned out, learning from previous downturns the art market responded very quickly to the financial crisis of 2007-09
  - For example, at the auction houses they limited any potential losses by reducing the number lots offered for sale and only favouring the best art works
  - In any case, supply tends to dry up when prices are falling or expected to do so
  - That makes it more difficult to find good stock for sale so positive publicity becomes even more important during downturns
  - During this period that was for the most part the case
  - In another sense, during hard times art market supply can benefit from personal misfortune in the form of debt, divorce and debt
  - Other misfortunes during the downturn was the closure of art fairs, mainly in the contemporary market, and the demise of several well known dealers, especially in the antiques market
  - According to this graph, in purely statistical terms if the value of international art trade is to return to its 45 year trend prices it would have to fall about 35% from their 2007 high
  - Based on current projections they had fallen between 20-35% by the end of 2009
  - By most accounts this is affecting art sold in New York and London where 70% of the world's art is traded
  - Other figures for art re-auctioned in New York which represents less than 5% of the world art market showed a 23% drop in 2009
  - By the same measure the art market fell by 65% in the 1990-95 recession
- Chinese contemporary art auction market share 2009
  - However, in 2009 the auction art market in China bucked the trend in the world's shrinking art market
  - While auction turnover fell in the USA by 55% to \$1.3bn and in the UK by 65% to \$1bn, in China auction revenue rose by 25% to \$830m
  - It became the world's third biggest auction market with a 17.4% share
  - The world's leading auction houses now includes the Chinese owned and operated Poly International, China Guardian, Hanhai, Beijing Council International, Beijing Jiuge International which are all based in Beijing, and Xiling Jingshe in Hangzhou

- The leading Western auction houses of Christie's, Sotheby's and Bonham's remain in Hong Kong rather than the Chinese mainland
- Western painting and Chinese art average prices 1976-2010
  - The downturn is brought into sharper focus by this graph showing the average price for art sold at auction in London and New York
  - In a thicker line the index for Chinese contemporary art is shown since 2005 and for Chinese ceramics since 1976
  - As you can see the Western fine art market has followed a similar pattern during the last two years led by the dramatic rise and fall of contemporary art
  - According to other data, Chinese contemporary art prices have followed a similar trajectory since 2004 peaking at the beginning of 2009 after a rise of 500%
  - In 2002 there was one Chinese artist in the top 100 by auction revenue worldwide and in 2009 there was over 35 exceeding the numbers for the USA
  - However, today, Chinese contemporary art remains about five times cheaper than Western contemporary art but nine times more expensive than Chinese ceramics
  - As a rule, fine art has been more valued than decorative art since the 18<sup>th</sup> century with the reverse being the case since ancient times
  - Sometimes, during economic booms, such as the period since 1996, contemporary art has been more highly valued than older art
- Wu Bin, Qi Baishi and Qing Jade record price sales
  - My expectation at the Thessaloniki conference was a correction in the Chinese contemporary art market which proved correct
  - As then, I believe the market will return to popularity during the next economic upturn with the better art disappearing into private or museum collections while the insignificant will be lost to posterity as the market finds its way internationally
  - This will be replaced by the better works as more talented artists follow the example of those more capable of marketing themselves
  - For now, the prices for internationally established Chinese contemporary artists in 2009 fell between 60-90%
  - This included the once record breaking Yue Minjun and Zhang Xiaogang
  - Meanwhile, as is typically in a recession, there was renewed interest in older art, particularly Chinese modern art and old masters
  - In 2009 this 16<sup>th</sup> century Ming Dynasty painting by Wu Bin (c1573-1620) sold for \$22m, a work by the Modern artists Qi Baishi (1864-1957) sold for \$12m in November and this 18<sup>th</sup> century Qing Dynasty white jade seal sold for \$12m in April 2010
  - Other records were set for Zeng Gong, Da Zhu, Huizong Emperor, Baoshi Fu, Chen Yifei, Ren Ranfa, Jin Nong, San Yu, and Wu Guanzhong
  - Qi Baishi was the third best selling artist by sales revenue in the world after Picasso and Warhol
  - Also by revenue the best selling artists in the world's top 200 were Zhang Daqian, Zao Wouki, Xu Biehong, Fu Baoshi, Lin Fengmian, Wu Guanzhong, Wu Bin, Zhu Da, San Yu, Li Keran, Wu Changshuo, Zeng Gong, Lu Yanshao, Chu The-Chun, Huang Binhong, Chen Yifei, Huang Zhou, Xie Zhiliu, Zeng Fanzhi, Zin Nong, Zhu Ming, Yayoi Kusama, Tianshou Pan, Tao Shi, Huizong Emperor, Chen Hongshou, Cheng Shifa, Hui Wang, Zhang Xiaogang, Chunya Zhou, Ren Renfa, Zeng Fan, Shi Lu, Yeu

Minjun, Li Shan, Zheng Banqiao, Lee Ufan, Zhaohe Jiang, Ru Pu, Haishu Liu, Yanqi Wang, Qian Songyan, Liu Ye, Jin Shangyi, and Wang Zidong

- **Do these crises show any similarities or differences in time and space?**
- Friedrich Nietzsche quote and Andy Warhol
  - At the Thessaloniki conference I went further by suggesting that a period of economic austerity and social/political decline may even be good for the art produced even though one naturally sympathises with financially harder pressed artists
  - In the established or secondary art market, art works generally becomes better value for money
  - While in the primary or contemporary market, since necessity is so often the mother of invention, better art maybe produced
  - Conversely, there is less money to buy art and to invest in producing it
  - Therefore tastes become more conservative and creativity is neglected or is for the privileged only
  
  - In cultural history there are many examples of creative periods and speculations into its origins but little data on which to base a formal analysis
  - Since Pliny the Elder writing in ancient Rome in the 1<sup>st</sup> century AD, art theorists and philosophers have tried to answer the mystery: do wealthy societies produce better art or do the harder times that preceded economic prosperity lay the groundwork for later more easily recognised success
  - Examples in the West include, the earlier period of ancient Greece, 11<sup>th</sup> and 13<sup>th</sup> century northern Europe, late Middle Ages Italy including the Renaissance, early 17<sup>th</sup> century Netherlands at the onset of the Dutch Golden Age, late 17<sup>th</sup> and early 18<sup>th</sup> century France, late 18<sup>th</sup> and early 19<sup>th</sup> century Britain, and Europe in the second half of the 19<sup>th</sup> century up to WWI etc
  - The challenge is even greater because so much art has been produced and its values are barely discernible
  - A process which is filtered or distorted by the art market's apparent control by a wealthy, commercially astute and socially well connected elite
  - For now our knowledge is being improved by measuring outputs rather than inputs which in themselves are highly subjective
  - Technology and our knowledge of other cultures is further aiding our understanding
  
  - For Friedrich Nietzsche (1844-1900), shown here, the meaning of art is life in the form of the artist's inward life and the art's capacity to act upon and affect life
  - It does this in ways that other practices do not or cannot possess and is therefore placed by him above all cultural phenomena
  - Here in the 1880s he poses this second question
  - In either case he believed art is based on the artists compulsion to create for the fulfilment of personal needs
  - He concludes that art that is symptomatic of an impoverished life is ranked below that from an abundant life and therefore attracts the same type of viewer
- Pink Floyd's Dark Side of the Moon and Michael Jackson's Thriller albums
  - By way of recent example, instead of art, I chose the more democratic, widely marketed and affordable examples from the music industry

- What came to mind was my country's (and in many ways the USA's) economic crisis during my youth in 1973-79 and the social upheaval that followed during the early years Prime Minister Thatcher
  - In my lifetime, I remember how album covers which were deliberately imaginative or shocking helped promote Britain's music industry worldwide
  - Here are shown covers for the two best selling albums of all time – the Progressive Rock of Pink Floyd's *Dark Side of the Moon* released in 1973 and selling 45 million copies (the third best ever) and in 1982 Michael Jackson's *Thriller* which is the best selling record of all time (no doubt further promoted by his death) reaching at astonishing 110 million copies sold
  - By contrast, Pink Floyd's album features the profound issues of conflict, greed, the passage of time and mental illness and Jackson's album a few personal concerns mostly peculiar to the singer
  - Moreover, it has never been rated by experts as highly as his 1979 album *Off The Wall*
  - Perhaps it is an exaggeration to conclude that hard times produce greater minds or that good times don't
  - Or perhaps it is a numbers and influence game where a more populous generation which promotes the work more successfully as they reach their middle age
  - Or, more cynically, is a successful commercial formula found and then repeated until we grow bored and replace it with anything
  - The great British art historian Kenneth Clark wrote in his study of western civilisation 'a margin of wealth is helpful to civilisation but too much can be destructive'
  - This may well prove to be the case during the last decade or so
- Chinese ceramic price cycles 1820-2002 and Mark Twain quote
    - The economic cycle has been known since the time of the Egyptian pharaohs
    - The Christian bible talks about seven plentiful and seven lean years
    - Today, the typical economic growth cycle may last up to ten years and the recession which follows may affect us for less than three
    - Art market price cycles tend to follow the economic cycle with a time lag
    - Typically, a stock market crash which precedes a economic recession by up to year may be followed for up to two years by stronger growth in the art market possibly into the next recession
    - Hence, investors tend to take an increasing interest in art as cash from the stock market becomes available
    - In another way, art's lack of correlation with other investments adds to its appeal as a form of diversification
    - But as we will see art's greater appeal to long term collectors rather than short term investors makes investment a difficult proposition
    - As you can see here the price of Chinese ceramics which are the longest and widest traded internationally – beginning with the Portuguese in the 1560s – have followed the path of economic growth over the last two hundred years
    - As we will also see later the period of free trade (mainly meaning Europe, USA and their trading colonies) from the mid 19<sup>th</sup> century to World War I provided a boost to the price of art
    - Today, we live in similar times but on a broader international scale
    - Generally, art prices rise most during periods of above average growth and inflation
    - Today, this typifies developing countries, especially in Asia, more than those in the West

- Conversely, as shown the protectionist period between the World Wars including the 1930s Great Depression was very negative for the art trade
- Artist age and price profiles
  - On the creative side it may be a question that artists tend to produce their best work at a certain age or again is it the time in which they lived
  - For example, nearly half of the best known artists in the market did their best work between 31-50 years old and up to 60
  - Research by Professor David Galenson from Chicago University on age and artistic creativity demonstrated the following for some well known Western artists
  - It is based on prices paid at auction probably later in the artists life rather than near the point of creation
  - Though the methodology maybe flawed it may indicate that better artists have their works brought to auction at a younger age
- **How do the socio-cultural conditions influence these crises?**
- Giorgio Vasari quote and Cimabue, Michelangelo and Andrea Mantegna
  - At the centre of art culture linking art and its market is art history
  - One of the most influential and enduring writers about art was the Italian Giorgio Vasari (1511-74) in the 16<sup>th</sup> century
  - Vasari's *Lives of the artists* established an art history consensus until the present day by creating a canon of great artists and their great works
  - The book 'distinguished between art's good, better and best' based on the principles of 'design, nature, grace, appropriateness, reason and style'
- Art history departments worldwide 2004-06
  - Vasari's 16<sup>th</sup> century contemporary in northern Europe was the Dutch Karel van Mander who added precision to an artist's distinguishing principles
  - From then on art history as an academic discipline grew, especially in the 19<sup>th</sup> century
  - However, today citations of the most influential 20<sup>th</sup> century art historians, such as Gombrich and Panofsky, are waning, according to a University College Cork survey in 2004-6
  - It assembled a database of nearly eight hundred institutions worldwide that have art history departments
  - In these institutions, art history is very much a western European and North American phenomenon in which visual art is the most important element
- William Hogarth quote
  - From an artist's perspective, in the 18th century William Hogarth believed that man should 'learn to see objects truly' without prejudice and preconception
  - To some extent this echoed Michelangelo's idea of beauty which put a new stress on the idea of artistic integrity above nature
  - Hogarth believed it was the artist rather than the connoisseur that possessed this facility

- Man's sense of beauty was founded on grace which was an attribute that literary connoisseurs did not possess
- Hogarth's principles for his famous line of beauty were: fitness, variety, uniformity, simplicity, intricacy and quantity
- Japonisme and Chinamania and 1862 London exhibition
  - At the beginning of the 19<sup>th</sup> century the German philosopher, GWF Hegel (1770-1831) captured the spirit of the times when he said that 'it is in works of art that nations have deposited the profoundest intuitions and ideas of their heart'
  - During the century that followed this was to be given an added international cultural dimension
  - With the industrial revolution came a fascination with innovation, the unexplored and the new
  - At the 1862 London Exposition industrial inventions as well as the decorative arts were displayed by 28,000 exhibitors from 36 countries to 6 million visitors over 6 months
  - This included wares and works from the so called Orient
  - The World Expo in Shanghai which started in May 2010 is a continuation of this international commercial process
- Japonisme and Vincent van Gogh, Christie's auction and Adam Smith quote
  - One significant example from cultural history which directly affected the art market was the commercial and artistic exchange between Japan and Europe, especially France and Britain, after its opening to the West in 1868
  - Artists such as the post impressionist Vincent van Gogh copied and adapted Japanese pictures and techniques as shown here
  - During the next hundred years growing commerce and curiosity led to an accelerated trade in Japanese art and then impressionist paintings
  - In the late 1950s, having reached a certain stage in their economic development, the Japanese began buying back their art from the West
  - A process now being practiced by the Chinese during the last ten years
  - From 1973 the Japanese started buying impressionist paintings at auction culminating in the spectacular market boom of 1987-90
  - Van Gogh's *Sunflowers* sold here at Christie's in 1987 for \$40m which was by far the highest price paid for an artwork from the preceding half century
- Chinese art influenced by the West
  - But Japan was not the only country touched by Western artistic influence
  - In a recent book tracing 30,000 years of art, two Chinese artworks among the five they listed in the last 150 years have been influenced by Euro-American art
  - Xu Gu's *Fish* from the Shanghai School in 1875 features western influence and Zhang Daqian's *Panorama of Mount Lu* in 1981 mixes the Tang and Song styles with Abstract Expressionism
  - This is a process that seems likely to accelerate between more countries in the years ahead
  - The possibility of new hybrid form of art seems possible
- Maslow's hierarchy of needs

- There is an often overlooked social aspect to art and its market
  - It should not be forgotten that the social, sentimental and financial importance of art has been so great in the past that several aristocratic families have clung to their family heirlooms when all else has vanished
  - In 1899 the American-Norwegian Thorsten Veblen was one of the first to interpret the symbolic meanings of expressed taste during the so called Gilded Age of the 19<sup>th</sup> century USA coining the term conspicuous consumption
  - In the 1950s the American psychologist Abraham Maslow conceptualised a hierarchy of human needs
  - In this, as shown, once basic needs are met at the base of the pyramid, an individual can concentrate on the ascending levels
  - At the top, esteem may represent activities such as art buying and self actualisation could involve the creation of art itself
- Pierre Bourdieu quote
    - In Europe in the early 20<sup>th</sup> century Georg Simmel (1858-1918) was one of the first to see aesthetics as a means for addressing other societal issues in turn of the century bourgeois Berlin
    - He highlighted the way in which art sociologically functions as a medium for expression and self reflection provides the vocabulary for the social construction of culture
    - In the 1970s the French sociologist Pierre Bourdieu emphasised power relations and the social construction of ideas about art
    - His theory of distinction is based on the amount of social and economic capital a person controls, known as cultural capital
    - Cultural capital is a currency based on taste involving knowledge about high art and culture, a high degree of sophistication and know how, and appreciation of knowledge in general and of speaking knowledgeably
    - The result is a social boundary around certain types of art which favours the elite – an aristocracy of culture – who want to remain an establish themselves as distinct from the lower classes
    - For example, these people are more likely to say that abstract painting interests them as much as the classical schools
    - This view is confirmed by numerous surveys on taste in the USA and elsewhere in the research of Paul DiMaggio, David Halle and others
    - For example, in the elite neighbourhoods (white, well educated and well paid) of New York in the 1990s they knew the names of artists and often preferred art from other countries
  - Top 200 collectors, Mark Rothko and Damien Hirst and Victoria Alexander quote
    - Bourdieu also found that his theory included the art produced
    - Above all, it is being dealt a good hand in the artistic stakes that determines artists chances of gaining more recognition
    - He reveals the alchemy by which the select few, whether artists or buyers, tacitly accommodate themselves to the art market and can do very well out of it
    - Here we see the taste of the top 200 collectors whose collections the wider public may find hard to understand
    - Abstract Expressionism, here by Mark Rothko, was used to promote the American view of world internationally in the 1950s



- During the recent art boom, the Young British Artist Damien Hirst, created this skull encrusted with diamonds for sale at \$100m
- It's intrinsic value was less than \$20m and it is unsold despite great publicity
- **What are the rational links between art and the art market?**
- Ganz Collection and Picasso
  - So what is the rational between art and the art market?
  - Naturally, as we seek to explain the art market there are more rational aspects than irrational since they tend to get noticed
  - However, the irrational is typified by the often unexplained art price records in any time and place
  - For example, Picasso's *Nude, Green Leaves and Bust* from the 1930s sold for \$95 in New York in May far exceeding the \$52m paid in London recently for a turn of the 20<sup>th</sup> century Blue Period Picasso *Portrait of Angel Fernandez de Soto* which just reached its estimate
  - The Ganz collection is often cited as an example to those buying art for love not money but making a good return
  - In other words, the irrational becoming rational
  - The collection earned double digit real annual returns on more than half the works they sold, beating the stock market during the same period
  - Beginning in 1941, the Ganz's acquired more than 1000 works during their lifetime and held them for long periods
  - Only 3 of the 83 works auctioned in 1986, 1988 and 1997 were held for less than 10 years
  - Owner by them was Picasso's *La Cage d'Oiseaux* which was the first by the Modern artist to break the \$10m barrier in 1988 selling for \$15.4m
  - The most spectacular return was for Picasso's *La Reve* bought in 1941 for \$7,000 and sold in 1997 for \$48.4m, becoming one of the highest selling Picasso's ever
  - Possibly due to the artworks provenance buyers appeared willing to pay a premium for the Ganz collection – 25-90% more in the case of similar prints
- Mei/Moses 1875-2002 and Pierre Auguste Renoir quote
  - Like other markets everything depends on when you buy and when you sell
  - An item that is not from a private source and may have appeared comparatively recently on the market will lead to a lower hammer price (in art market jargon it has been burned) than one that has been in a particular collection for a number of years
  - An economic study of fine art resold at auction in the USA since 1875 (less than 5% of the art market) shows that during minor recessions and wars the art market falls less than shares and can outperform other investments on a long term basis
  - The Mei/Moses index found in 1875-2000 that art returned 7.7% outpacing inflation by 4.9% compared to an above inflation return on the S&P 500 of 6.6%
  - Art was slightly more risky than shares but less than gold
  - Mei & Moses likened this to a small firm with low market capitalisation but the potential for high returns
  - More significantly, Mei and Moses also showed that like other investments the more you pay for art the lower the return – the so called auction winners curse
  - For American paintings a 10% increase in purchase price is expected to lower future annual returns by 0.1%

- There were similar results for Old Masters and Contemporary art
- Hedonic regression results
- Hedonic regression criteria and results
- Further attempts at rationalising art and its market are provided by an 18<sup>th</sup> century methodology, known now as hedonic regression, that can be used for estimating the future value of art based on previous sales
- Hedonic regression decomposes the item being researched into its constituent characteristics, and obtains estimates of the contributory value for each characteristic
- The analysis searches for, and quantifies underlying forces behind art movements (income, inflation etc) or looks at interdependencies between the art (number of exhibitions, media etc)
- The father of this methodology who offered the first theory of formal pictorial composition was the Frenchman Roger de Piles who in his book *Cours de peinture par principes* awarded marks out of 20 for the characteristics of major European painters
- In the late 1970s, Willi Bongard devised a more scientific theory by making judgements of contemporary artists by their recognition in permanent collections of museums, one man and group shows, and by notices in periodicals and on TV
- Bongard added numerical values to his estimates of importance and measured them against their current price
- For example, Bongard presented 300 points for each work present in the Metropolitan Museum of Art, New York and 200 for the Art Institute, Chicago
- However, it should be noted that the relative influence of any museum, exhibition or private gallery continuously shifts with the market
- By his measures the greatest impact on prices was for those working in all mediums
- Bongard's weights are somewhat arbitrary but the study found that as the estimates increased by 10% the price increased by 8% which in economic terms is statistically significant
- Here we also have the hedonic deconstruction of price criteria for Picasso paintings sold between 1963-94
- Art market operation diagram
- Also I believe it is possible to rationalise the art market by understanding the operating mechanism
- Beneath the economic environment, the market's rises and falls are to some extent exacerbated by a consensus of market opinion, in the form of art collectors, dealers, critics, auctioneers and museum curators
- There are also a number of ancillary services such as valuers, restorers, insurance etc
- The primary art market is where art is sold for the first time directly or through dealers and at art fairs
- This mainly includes contemporary art which can also be traded at higher prices in the secondary market where it is resold
- As shown the artists are almost unlimited in number
- Their aim is to move upwards for sale to collectors through dealers and occasionally auction houses

- Having established themselves financially their aim is to be displayed in museums especially in the public sector which are independent of the market
- The size of the circles denotes the numbers and financial importance in each category
- The overlaps denote linked activities such as private museums or collectors and dealers selling both types of art
- Primary and secondary art market supply and demand
  - The market also functions in a rational economic sense between the primary and secondary markets
  - Say's law, named after the 18<sup>th</sup> century French economist, stated that there can be no demand without supply
  - This principle rings true in the art market like many other markets
  - In essence the art market is supply driven
  - Because collectors buy for emotional/aesthetic reasons rather than investment - holding their art on average for 30 years - scarcity is exacerbated
  - The traditional causes of increased supply are the 3 D's of debt, divorce and death, now with an added d for discretion, meaning change of lifestyle
  - Because of this the supply curve for art is essentially fixed or vertical as shown – see the right hand graph
  - In that the total quantity of art supplied (in the secondary market) is essentially fixed for nearly all artists regardless of the market price
  - This gives art zero elasticity
  - This is why prices can shoot up to extraordinary levels when works, usually well known and sometimes unseen, appear on the market
  - On the left in the more exploratory primary markets which share characteristics with commodities there is little or no pricing power
  - This equates with a more familiar demand and supply graph
  - To overcome this, dealers attempt to manipulate the market by controlling supply through artist contracts and increasing demand through shock marketing
  - Demand for art may also be affected at different times by the prices of related goods
  - Generally, the art market demonstrates characteristics common to the luxury good markets where the control of supply and the marketing of exclusivity are the main drivers
- Antiques v Modern art international turnover 1988-2009
  - These broad characteristics naturally play out from the consumer view point
  - There is a saying, probably relevant to all ages, that old money owns old art and new money tends to buy new art or the diminishing number of great old works available
  - The new money trend of buying modern and contemporary art has been most evident in the last six years until the recession
  - During recessions the market becomes more conservative by tending to buy antiques
- Willem de Kooning and Canaletto
  - For example, the best selling artworks during the previous boom in 1987-90 were Impressionist and Modern art
  - Van Gogh's *Dr Gachet* sold for \$75m at the peak of the market in May 1990

- In the previous year, Willem de Kooning's *Interchange* which sold for \$18.8m became the most expensive contemporary work by a living artist for the following ten years
- Conversely, during the bust that followed in 1991 Canaletto's *Old Horseguards* was the most expensive when it sold for £16m (\$30m)
- Higher and unobtainable prices also tend to cause changes in taste
- For example, the last time an old master painting such held the world record price for an art work was in 1985
- In other words, as more money has entered the art market older works have become scarcer and fashion less conservative
  
- New museum buying in the 21<sup>st</sup> century
  - Helping shape the future of taste and underpinning the art market is museum art buying
  - 64% of all the art museums opening worldwide in the 21<sup>st</sup> century are dedicated to contemporary art
  - Including all museums of modern art, three quarters exhibit contemporary art
  - Moreover, 75% of these collect international contemporary art
  
- Art law topics
  - Another rational aspect to the art market is provided by the laws which govern it
  - Above all, it is the economic interests in art that most drive the law and the art market which most means art traded in New York and London (USA and UK trade 65% of the world's art)
  - The artworks which carry higher monetary and cultural value tend to lead to further law cases and legislation
  - In the last fifteen years many areas of art law have shown further signs of convergence and are now guided or even governed by widely agreed international conventions and treaties through UNESCO
  - In most cases, art law stems from the uneasy relationship between art as something economic and the higher aesthetic and cultural purposes that gives art its particular interest and complexity
  - For example, following court cases in 1892 and 1916, the case central to USA art trading law centred on the USA v Brancusi's *Bird in Flight in 1928*
  - But it took until the 1950s for the USA to agree on an art definition for customs and tax purposes
  - Here are the main areas where law has been established specifically for the art trade
  
- Tax chart and Mark Rothko painting
  - Similarly, activity in the market has a direct and simple correlation with the tax status of art both directly and indirectly
  - The less demanding the tax burdens the greater the art trade, and the higher the tax incentives the bigger the art donations to the public sector
  - More valuable art works are shipped to where the conditions of sale are the most advantageous
  - In the short term, during times of financial and political instability, in expectation of poor investment returns and higher personal taxation, art benefits as a store of value
  - Today, this maybe the case in indebted countries as it was in the 1970s

- Taxes chiefly affecting the art market include Inheritance and Capital Gains Tax and Import VAT and the artists' resale rights tax or droit de suite
- One of the main reasons for US dominance in the art market is the duty free status of art imported into the country
- For instance, transport, insurance, customs value and import VAT costs on the imaginary international sale of a Mark Rothko (1903-70) painting in 2003 valued at £16.359m would have been as shown
- In the EU there is a minimum 5% VAT rate with some countries allowed to set higher rates (ie Italy which has a rate of 10%).

- **What misconceptions are created if we approach art through the market?**

- Immanuel Kant quote

- There are many misconceptions about art and the market but two strike me as most significant: can art be valued? and is the market necessary or even desirable?
- Immanuel Kant's (1724-1804) aesthetic theory remains the dominant orientation of most contemporary philosophy of art
- Kant spoke about judgements of taste in terms of explaining beauty
- He argued that everyone can in principle perform an accurate pure aesthetic judgement by exercising the proper aesthetic attitude
- But pure aesthetic judgements cannot be rule governed – it was a critique rather than a science that bypassed commerce to reach a level of common understanding
- Enjoyment of beauty should be distinct from other sorts of pleasure
- Kant's aesthetics perceived the essential value of an art work as consisting of everything from which it is usually distinguished – he called this the pure gaze
- The idea of 'purposiveness without purpose' or disinterestedness
- One's attention should be directed to the object in terms of its finality without regard to function
- Kant's aesthetic belongs to nature whose beauty he valued higher than art
- According to Kant, the artist of genius is a medium through which nature works
- Their visual representations such as painting inspire rich processes of thought and imagination on the part of their audience
- Unfortunately, it is not possible to formulate how these works come about in a literary sense and therefore the rules followed cannot be taught or learned
- Kant's view of art was very influential to the romantic movement and elevated the status of the artist and their work

- Karl Marx quote

- In a similar way, many believe we should be able to value a work of art without being in a position to buy it since aesthetic experience transcends the economic sphere
- In arts' commoditisation they fear a loss of meaning distinguished by the market rather than the spirit of the times or other factors
- To Karl Marx there is an essential relationship between economic structures and the culture of a society – the 'materialist conception of history'
- He argued that everything around us is determined by our social class
- Marx viewed culture as a dominant ideology that distorted reality and reflected the interests of the bourgeoisie in relation to production and property
- Marxists believe there is a relativism about art's value in that bad art is the negation of qualities designated good on a scale definition

- The status and attribution of goodness in art sounds the death knell of that object in certain markets
- Their conclusion is that without this relativism the aesthetic experience is impotent and destabilising
- Their aim is that the production of art should be based on communal production and the natural condition of every life
- Marcel Duchamp quote, bicycle wheel and fountain
  - There are those who have sought a higher or alternative ideal altogether
  - Later in the 19<sup>th</sup> century the art historian Alois Riegl made it his mission to counter an increasingly material view of art
  - He believed that art made in a particular style transcends any necessity imposed by practical utility, available materials or new technology
  - Riegl was trying to elaborate a history of art without aesthetic norms where every style would have an ideal and a place in the history of art that broke down the self contained separateness of objects and persons
- Many regard Marcel Duchamp as epitomising contemporary art as we know it today
- In 1913 Marcel Duchamp's *Bicycle Wheel* was the first of his ready made and signified that anything could be art
- His *Fountain* in 1917 was selected in 2004 as 'the most influential artwork of the 20th century' by 500 renowned artists and historians
- These set in motion a new way of thinking about art not established solely on craft, technique and skill but based on an underlying idea
- This fundamental principle underpins what is contemporary art
- Even so, many of today's contemporary artists had skills grounded on traditional skills
- Today, contemporary art tends to be divided between painting, sculpture, photography, drawing, prints as well as time based media (film), installation and site specific work and other ephemera largely made after 1970
- The influential American cultural sociologist Howard Becker's in his 1982 book *Art Worlds* identifies four types of artists: integrated professionals, mavericks, folk artists and naive artists
- Integrated are accepted and striving artists who can be talented and original
- Mavericks find the art world's conventions constraining and propose innovations the market refuses to accept
- By Becker's definition, Duchamp was an artist who went from maverick to integrated professional in the art market
- In other words, there was method in his apparent over imaginative madness
- David Halle, Marcus Harvey's *Myra Hindley* and The Sun newspaper article
  - For those looking for art beyond the market there will always be those who reject the art market system and live outside it
  - According to the sociologist David Halle, the conflicting aesthetics of the avant garde world and the much larger art world is a central component in art's controversies and fundamental to the nature of art
  - Notoriety therefore brings these artist's works to the attention of a wider audience

- In this case, the picture is of a notorious mass murderer of children in the north of England in the 1960s
- Shockingly, the picture was constructed using children's hands
- When it was displayed at the very popular 1997 Sensation exhibition attended by 300,000 people in London (it later went to New York) 80% of whom were under 30 some visitors shouted at the picture and threw objects at it
- Anne Bowler quote and Richard Dadd
  - To the sociologist Anne Bowler writing in 1997, asylum art introduces a new aesthetic category more profound than the avant garde art view of pure creativity
  - The asylum artist casts an aura of authenticity on the avant garde whose own self proclaimed outsider status is increasingly difficult to sustain as it is absorbed into the modernist canon
  - Here is shown the father of the outsider movement, the 19<sup>th</sup> century Richard Dadd
- Vitaly Komar & Alexander Melamid painting by survey
  - In a more amusing way, demonstrating that there is more to art than general opinion and that painting by prescription does not produce a masterpiece, Vitaly Komar and Alexander Melamid created America's most wanted painting based on national surveys
  - The surveys showed a liking for a landscape with water and mountains, whose predominant colour is blue (44%) depicting a wild animal and an historical subject!
  - In this case, George Washington
- AXA Art art buying survey
  - In an even more rational sense, the art market's limitations are exemplified by the majority of people who buy art for emotional/aesthetic rather than monetary reasons
  - What emerges from a study of prices is that a work of art is the best investment over time if directed by pleasure, taste and even love
  - It is thought that the investor may have less opportunity to improve their eye and knowledge in a natural way
  - It is therefore more likely that they will buy second rate works by first rank names and the collector the best examples of second rate artists
  - Therefore, the repeated advice is to give a suitable amount of money to a good dealer or agent and instruct them to spend it wisely
- **After the crisis, what will art and the art market be like?**
- World international art trade turnover by country 2007-09
- International Art Markets: an Essential Guide for Collectors and Investors plus review quotes
  - However, sustaining the market during the last decade has been globalisation's ability to spread the art market internationally
  - Bearing in mind that some of the country art market trade figures haven't been registered for 2009 the signs are encouraging

- Trade in art is now more free and widespread than at any time previously especially in countries with good economic growth prospects and recognisable international cultures
  - In recent years, several countries are now among the world's main art traders for the first time
  - Notably, Singapore, Austria, South Korea, Greece and Belgium as well as Hong Kong/China
  - On the creative side economic creative destruction and cultural fusion may also bring new art forms or techniques onto the market
  - This is the main reason I wrote my book which is now available in Chinese
  - It's concepts are now a regular feature of art market writing
- Demographic projections by country
  - Old age dependency ratio
- The only way of predicting the future is via demography or the scientific study of human population dynamics
  - Demographics set the social and economic parameters of the near future
  - Within twenty years the swelling number of retired people will put several economies under severe pressure, threatening to terminate in economic bust in the private (stock markets and property) and government sectors (pensions)
  - As economic growth falters and tax receipts dwindle, other priorities such as health are more likely to take root
  - A rise in the retirement age in many countries seems inevitable
  - Nevertheless, in future, ageing populations and shrinking workforces in many countries will have an effect on supply and demand in the art market until about 2050
  - The number of over 60s will double between 2020 and 2050 or 28% of the world's population
  - For the first time their numbers will exceed those less than 5 years old
  - This will be most acute in Japan (38%), China (36%), Europe (28%) and America (21%)
  - Like Japan today, where the economic and art boom ended in 1990 and the working age population turned negative after 1999, countries that will be particularly affected after 2020 will be China and Europe, especially Germany and Italy, and South Africa
  - The working age populations began falling in Japan (in 1999), Russia (2007), Europe (2011), China (2021), South Korea (2028), Turkey (2035), Iran, Brazil and Argentina (2042), Malaysia and India (2049)
  - Regions and countries least affected because of higher working age populations include Africa and the Middle East and India, Turkey and Brazil
  - This may produce a ferment of creativity among a restless and competitive youth
  - There is another view based on history that creativity also seems likely to increase in declining economies
- In the developed world, during the next 10-15 years it seems likely that art buying will increase as more people reach the peak of their earning power pre-retirement.
  - After that prices seem likely to fall
  - Longer term, art and culture are likely to benefit from ageing populations preference for tourism
  - Museums may also benefit from bequests and donations from the passing of a wealthy art buying generation



- Japan which is first developed country to experience an ageing population may also be a guide to the future of the art market – boom since the 1960s, especially 1985-90, and bust yet high exhibition attendance figures
- For example, in Tokyo attendance at art exhibitions is higher than in all Western cities
- John Dewey quote and Eugene Delacroix, Lawrence Alma Tadema and Pablo Picasso
  - The ultimate test of art's value is whether it can traverse cultures
  - Culture is a universal language that is the same for Greeks, Chinese and Americans
  - The main elements appreciated are beauty, sensuous form and the skill of creation
  - Proof is that people want things to show their differences to others
  - Yet no culture is homogenous or has gone untouched by the world
  - When we collect art from another culture we probably miss much of the original context because it is hard to understand and add to our own perceptions
  - Asian art had profound influences on the West until about 1500 and vice versa since the 19<sup>th</sup> century
  - In the 19<sup>th</sup> century the emergence of Orientalism in French art was part of France's colonisation of North Africa after 1830 helping make many things Arabic became fashionable in Europe
  - In the early 20<sup>th</sup> century artists saw themselves as linked by aesthetic and conceptual issues which have a universal reading
  - Here we see Picasso's 1907 Cubist painting *Les Femmes d'Alger (O. J. R. M.)* which was thought to have African and Oceanic influence
  - With late 20<sup>th</sup> century globalisation creativity seems likely to become even more diversified
- New art history textbooks and Alfred Barr exhibition cover
  - As we have heard, art history is very much a western European and North American phenomenon in which visual art is the most important element
  - In this there is a canon of artists who are still studied disproportionately more than the many artists who have been studied only recently
  - Mostly all of the list were dead men, Europeans or Americans, and painters
  - The top ten includes: Picasso, Durer, Rubens, Michelangelo, Leonardo, Raphael, Rembrandt, Titian, Goya and Palladio
  - The most surprising fact about worldwide art history is that there may be no conceptually independent national or regional tradition of art historical writing
  - For example, Chinese art history demands expertise in very different kinds of source material and formal concepts but its interpretive strategies remain very Western using psychoanalysis, semiotics, iconography, structuralism, anthropology, identity theory
  - There are Chinese translations of Wolfflin, Panofsky and Gombrich being taught in art academies in Beijing, Hangzhou and Nanjing where they were applied to Chinese and non Chinese art
  - However, a number of countries have produced their own art history textbooks in the last quarter century including Paraguay, Egypt, Romania, Iran, Japan, India, Cambodia, Czech Republic, Australia and Turkey
  - But overall, there may be no non western tradition of art history

- Museums are also profoundly important places for placing value on those objects without which they would make no sense by giving them aesthetic identity
  - Inside a museum any object is potentially an art object and the most unlikely objects become respectable
  - The pioneering attitude to this was set by the first director of MOMA, Alfred Barr, in 1929 who became one of the most influential figures in the modern art movement
  - Barr saw modernism as a historical fact rather than a series of freakish occurrences
  - He therefore established a pantheon of contemporary culture by obtaining the best from each faction and by extending the museum's scope to photography, film, industrial design and architecture
  - In 1935 his Cubism and Abstract art exhibition for which this was the cover helped formalise modern art
  - In 1939-40 he organised a Picasso retrospective which caused a reinterpretation of the artist's work
  - Such activities are becoming the norm worldwide
- **Is it possible to imagine art beyond the market?**
- Art X-Rays
    - With some difficulty it is possible to imagine art beyond the market because markets directly or indirectly provide the wealth, commercial know how and mechanism to sustain artists
    - However, markets can be reshaped by technology
    - For many years technology has been used to help authenticate artworks
    - Art crime, mostly theft, is estimated at \$5-8bn a year and is now the 4<sup>th</sup> largest criminal enterprise
    - Higher art prices and the idea of art investment has increased forgery
    - An estimated 10% of all transactions are fakes and forgeries
    - Art experts fall into two categories: stylistic and scientific
    - Stylistic is a subjective evaluation by an art historian based on knowledge, intuition and experience
    - Scientific authentication is an objective evaluation based on assorted scientific tests which can also help with restoration
    - The many scientific methods range from thermo-luminescent analysis to x-rays such as shown
    - The resulting advice is therefore based on accumulated opinion
- eBay, Christie's Live and Saffronart online auction
    - Until recently, the internet has been considered less suitable for the auction of larger and more costly art because of the lack of specialist assistance to verify quality and authenticity
    - Improved technology has changed this and is likely to transform and project the market internationally possibly into something more democratic
    - Today, many dealers consult the internet and the online auctioneer eBay for price information to buy ceramics, silver, and jewellery or to project their works for sale to a worldwide market
    - At a lower price level the market has been dominated by the growth in online auctioneering since the mid 1990s

- eBay registers 248m users in 38 countries and turned over \$52bn in 2006 (doubling since 2003)
- From sales of \$14.4bn in the third quarter of 2007, collectibles amounted to \$2.4bn, jewellery & watches \$1.9 billion, antiques & art \$1.2 billion and coins & stamps at 1 billion
- For 1.3m eBay sellers it is their primary or secondary source of income
  
- In July 2006 Christie's launched its live auction website in New York and London as an extra sales channel
- In the first year, 25 per cent of the internet bidders were new customers to Christie's
- In 2008 online bids totalled \$82m on company turnover of \$5.1bn
- This included 39,677 bids (38,700 in 2007) at 468 sales in eleven locations
- Significantly, in the first 6 months of 2009, online bidders represented 29% of the total at Christie's
- The most active online categories are interiors, photographs, prints, watches, jewellery and wine, music and pop culture
- The most expensive lot sold online was *The Penny* Stradivari violin sold on 4 April 2008 in New York to a previously unknown online bidder in Europe for \$1.2 million
- The top online bid (an underbid) was \$ 5,934,000 in a Hong Kong Imperial sale
  
- The Indian contemporary online art auctioneer Saffronart in September 2007 auctioned 115 works of 43 artists worth \$ 3.6 million including works by artists such as Shah Rukh whose own website has received over 150,000 hits
- The research company Artnet is also doing something similar
- That said, there still doesn't seem to be a substitute for physically seeing the artworks especially over a certain price level
- Online art indexes and confidence indicators are also increasing the art market's transparency
- At a creative level, dealers such as Charles Saatchi are using the internet to source new artists potentially redistributing the market more widely
- Digital art is another growing arena that is so far without a commercial market or in denial of one
  
- Cognitive science - Benedetto Croce quote, Rene Magritte and Constantin Brancusi
  - Studies of perception and the mind have grown and changed radically in the last 30 years as part of the cognitive revolution
  - The new field of cognitive science which is an intersection of psychology, robotics, neuroscience, philosophy and artificial intelligence has major consequences for our understanding of artworks
  - Neuroscientists have magnetic resonance imaging to study how the brain activities of artists differ from non artists in performing tasks like performing portraits or abstract designs
  - New scientific studies explain how visual perspective works in painting or why we regard certain patterns and colours as beautiful
  - As art depends on perceptual and cognitive processes new research is both interesting and suggestive
  - As the Italian philosopher, Benedetto Croce (1866-1952) once concluded, 'all art is intuition'.