

Christie's Education

'What is the Biggest Threat to the Art Market Today?'

by James Goodwin

October 2012

Presentation outline

- General threats to the art market
- The biggest threat today
- How is that the biggest threat
- How is it affecting the art market
- What can be done to prevent that threat
- What is a possible outcome of that

- Information sources

Art Market Threats

- **Economic** – economic uncertainty, trade protectionism, currency turbulence, price deflation/hyperinflation, low growth/recession/depression, wealth erosion, falling incomes, inequality, other investments, barter, **art price opacity, art investment and art fund failure**
- **Political/Legal** – differing legal system and disputes, powerless or overpowering national/international trade organisations, cultural trade restrictions, higher taxes, repressed freedom of speech and expression, **restrictive art legacies, weak or excessive trade regulation, tax avoidance/evasion, money laundering using art, art fakes, art taxes**
- **Technological** – online auctioneering art oversupply and deflation, falsifying art authentication, art market revaluation using internet and cognitive neuroscience, **too rapid internet democratisation of the art market**

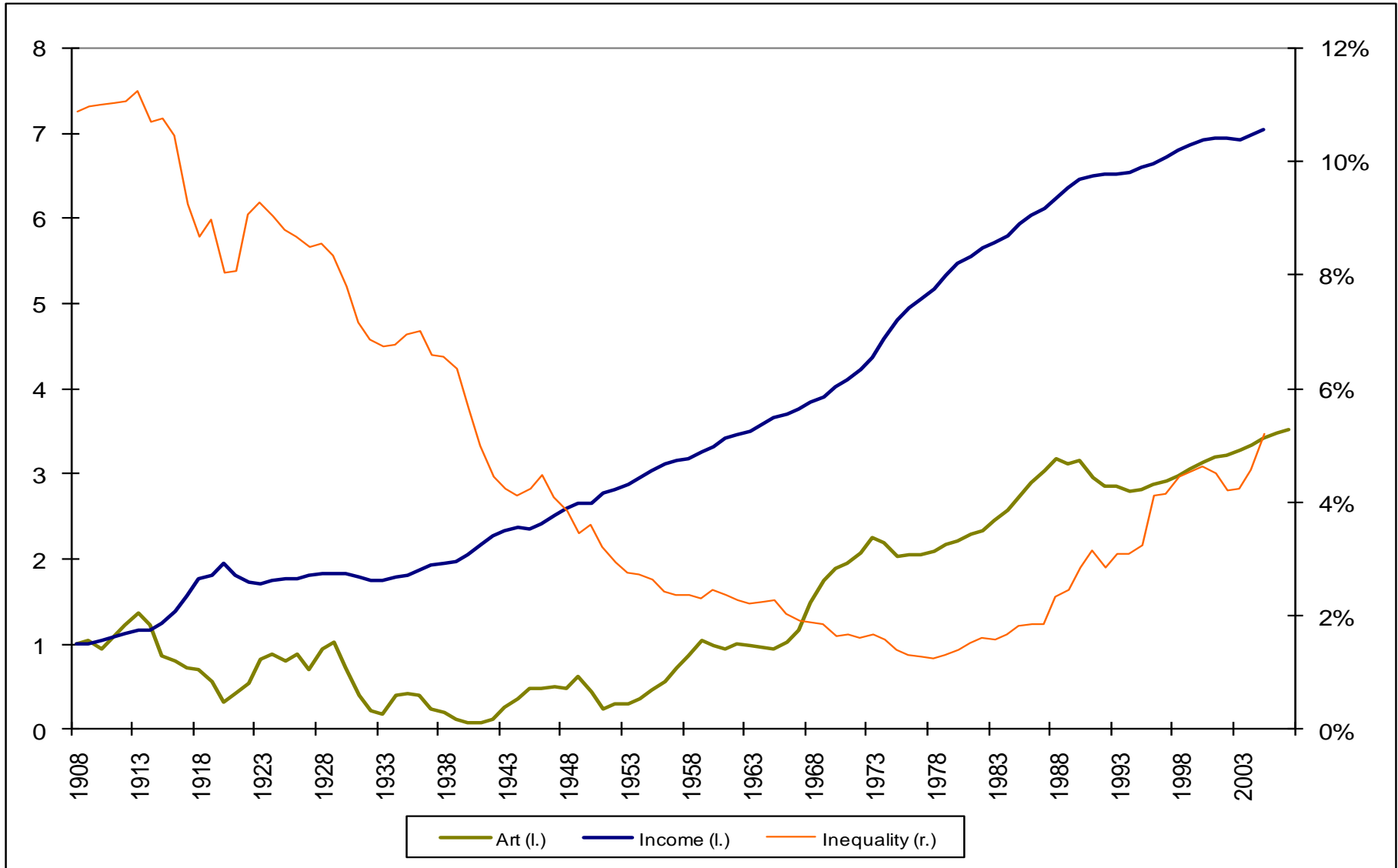
Art Market Threats (2)

- **Demographic** – rising dependency ratio, labour abundance and social conflict, **falling demand for art, art oversupply**
- **Social** – lack of aspiration, ‘uneducated’ taste, **non art buying priorities**
- **Cultural** – nationalism, lack of national identity, **uninspiring global art, unpredictable fashions, incomprehensible art criticism and art history**

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- **Business Operation** – unprofessional market operation, lack of educational qualifications, uninspiring primary market, artists cooperative networks, indifferent creativity, repetitive art school teaching, tax & financially driven collectors, excessive supply in the resale market, uninventive art critics, false valuations/authentication, high dealing costs, too many fairs, unprofitable auctions, lack of museum funding

Income, Inequality & Art

source: Goetzmann et al 2010



**The foremost threat to the ART MARKET is
HIGHER TAXATION (with MARKET REGULATION)
due to general widening INCOME INEQUALITY**

EXTERNAL FACTORS

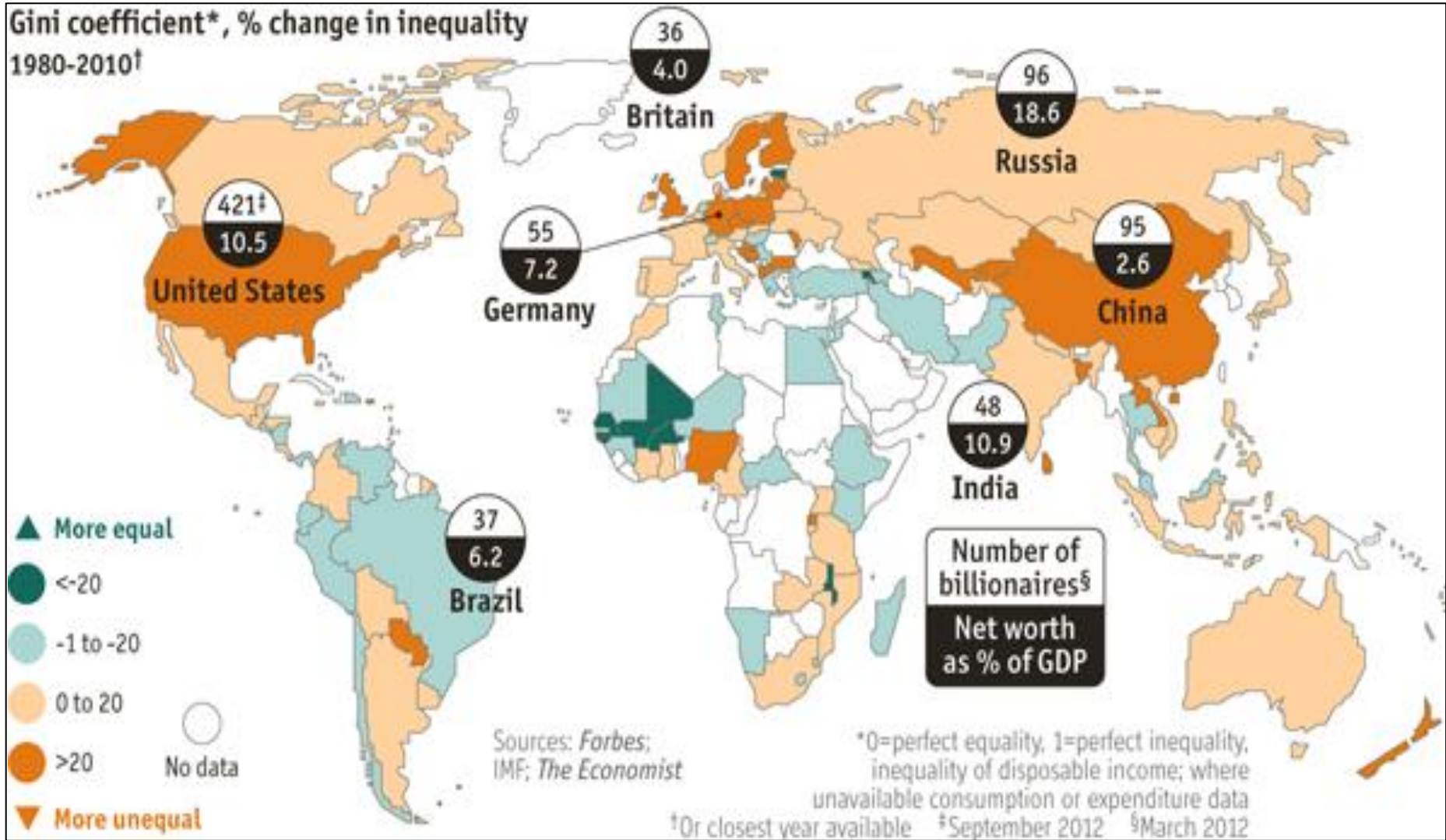
- Economic inequality
- Debt 'deleveraging'
- Rising unemployment
- Low economic growth
- Higher taxation

ART MARKET ELEMENTS

- Art market boom
- Public sector museum cuts
- Art tax concessions or wealth taxes

Inequality 1980-2010

source: The Economist, October 2012



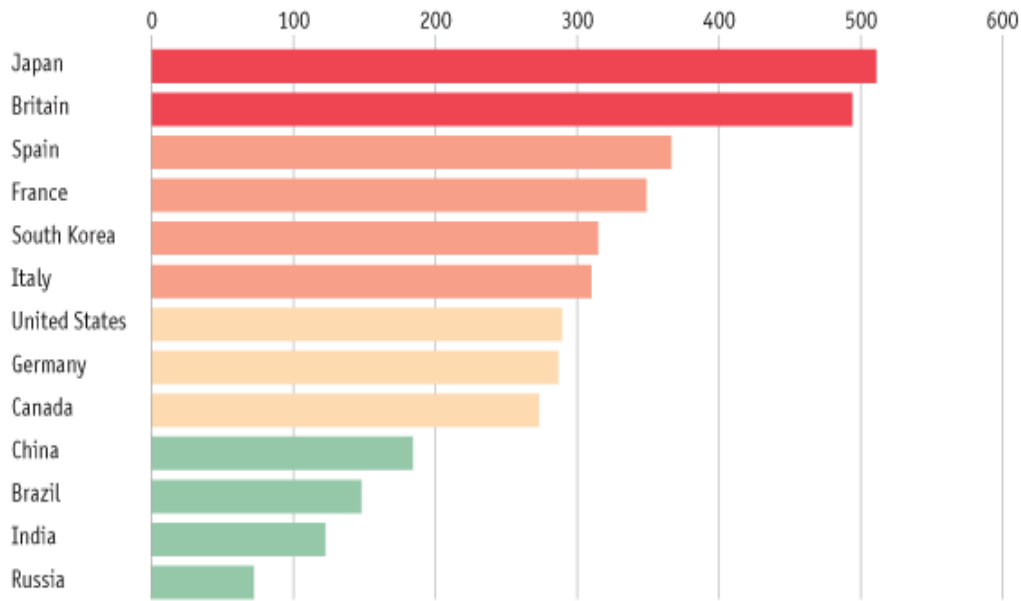
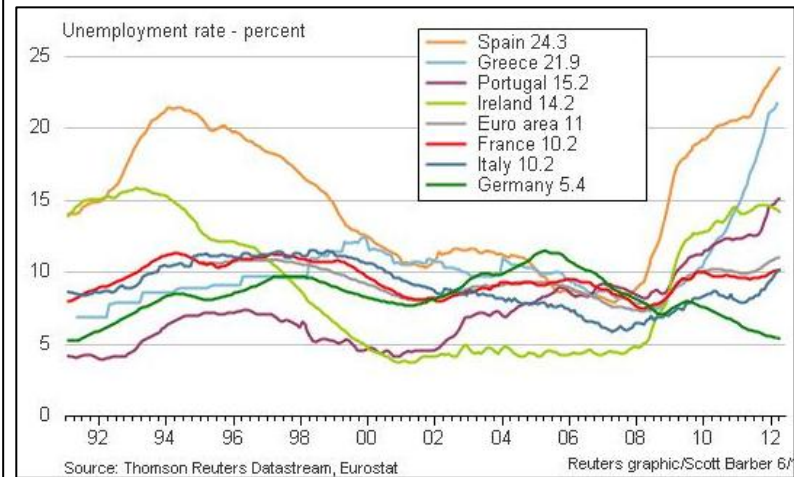
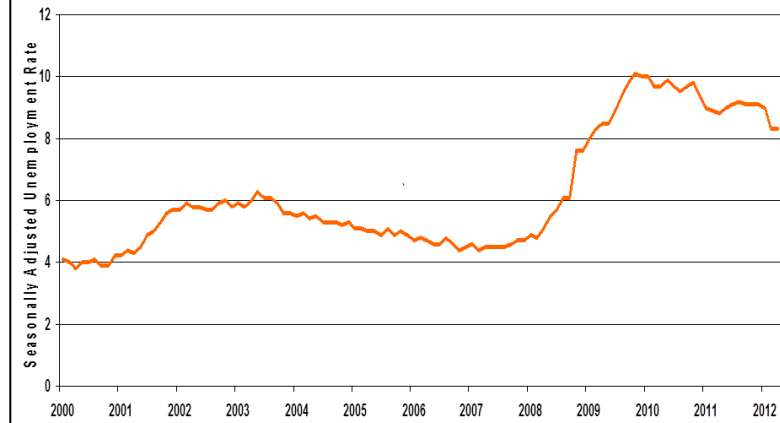
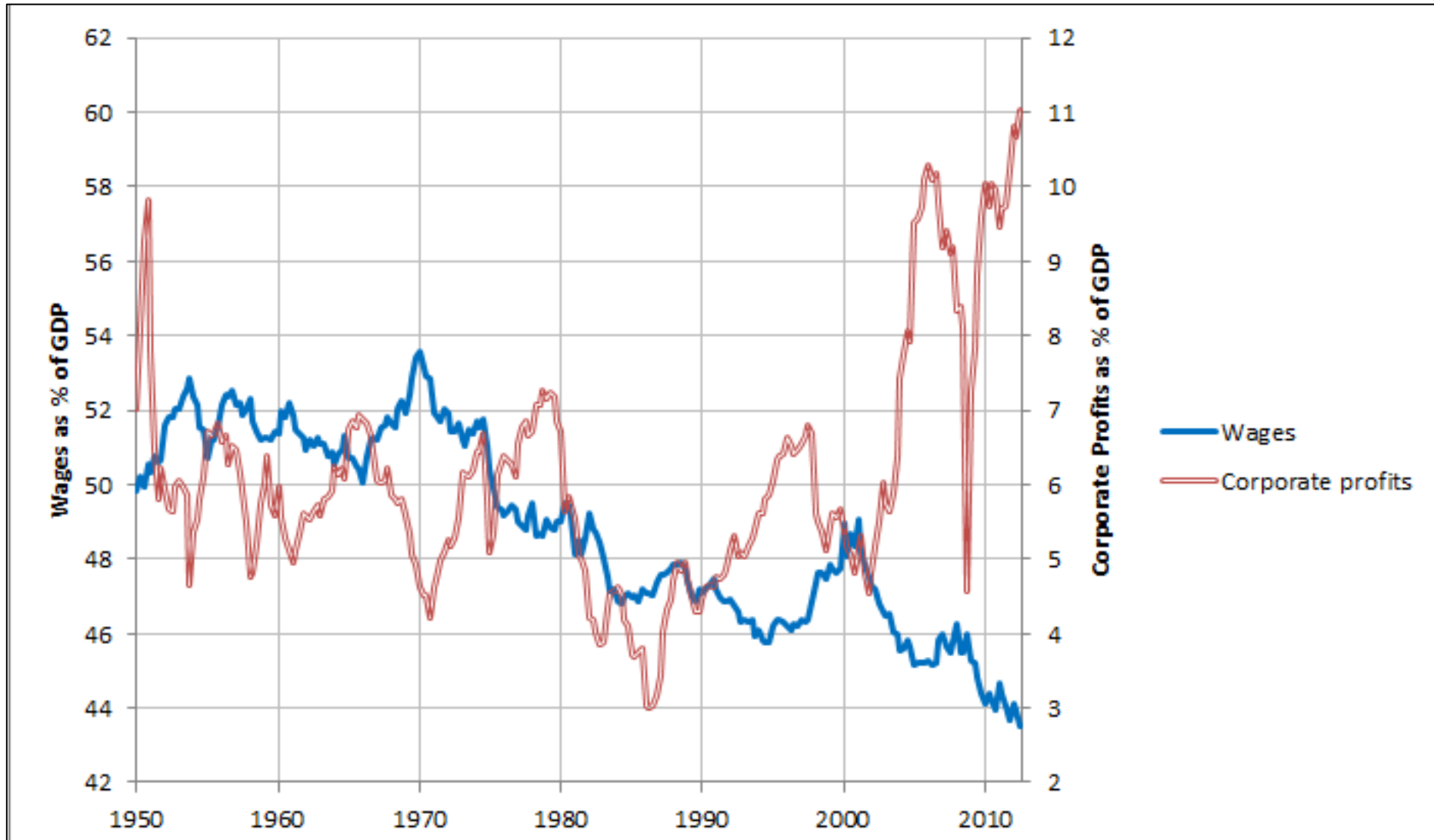


Figure 1: The US Unemployment Rate since 2000

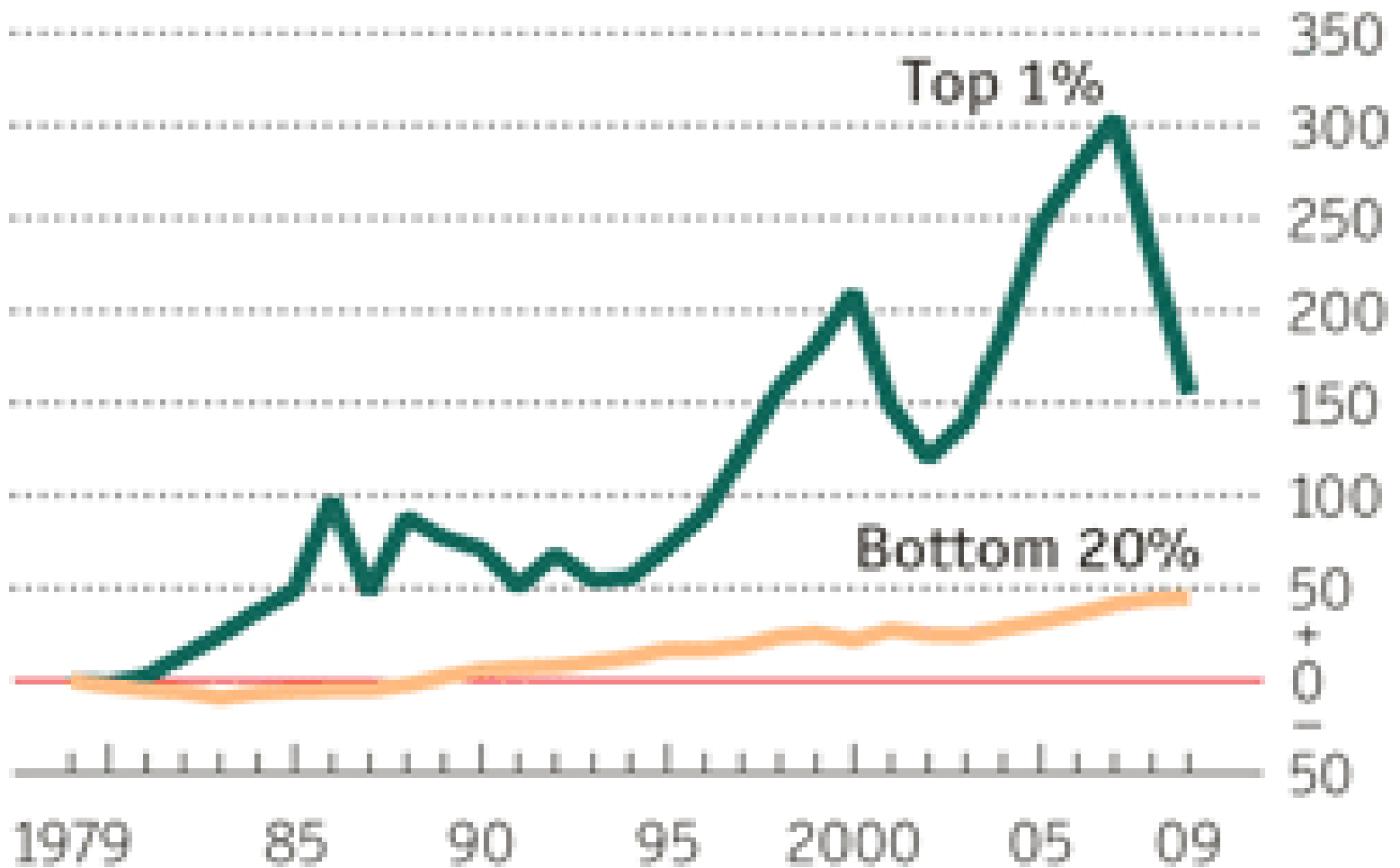


Corporate profits and wages as % of GDP in USA 1950-2012

source: Federal Reserve Bank of St Louis



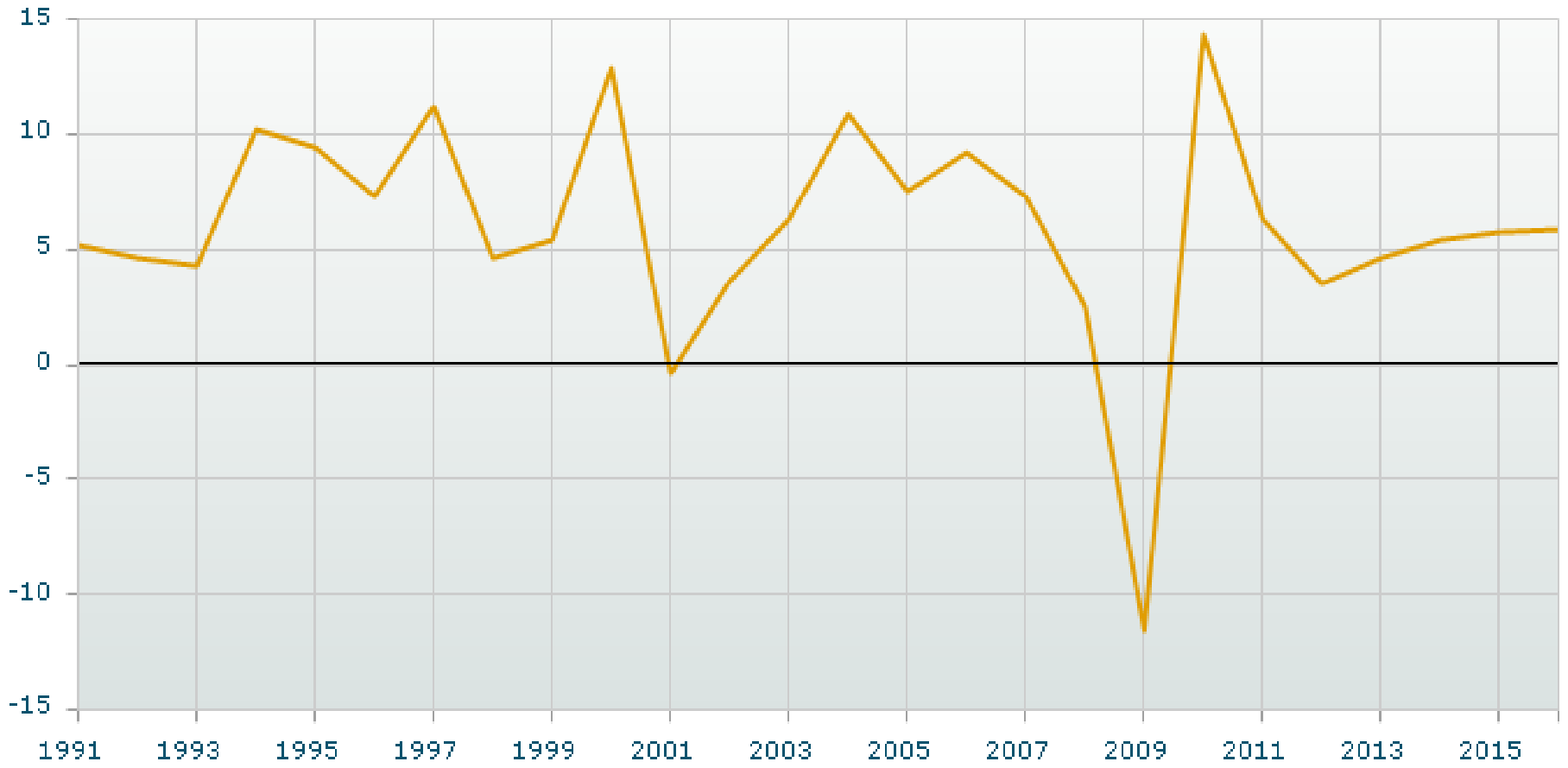
US, average real income after taxes and transfers % change since 1979



Source: Congressional Budget Office

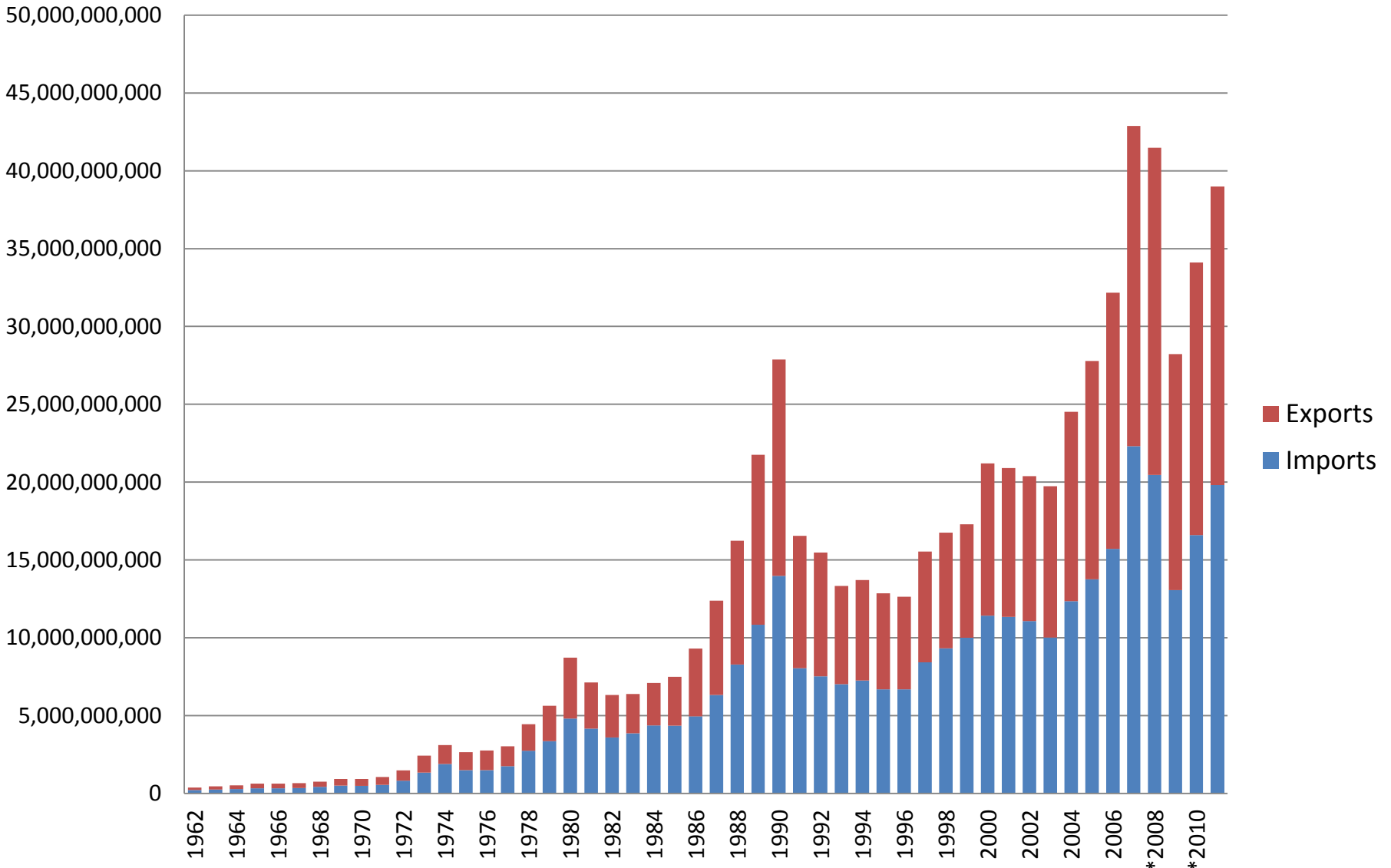
World Trade Growth

source: EIU 2012



International Trade in 'Works of art, collectors' pieces & antiques' (\$US)

source: United Nations



Why People Buy Art?

Source: Deloitte & ArtTactic survey 2011

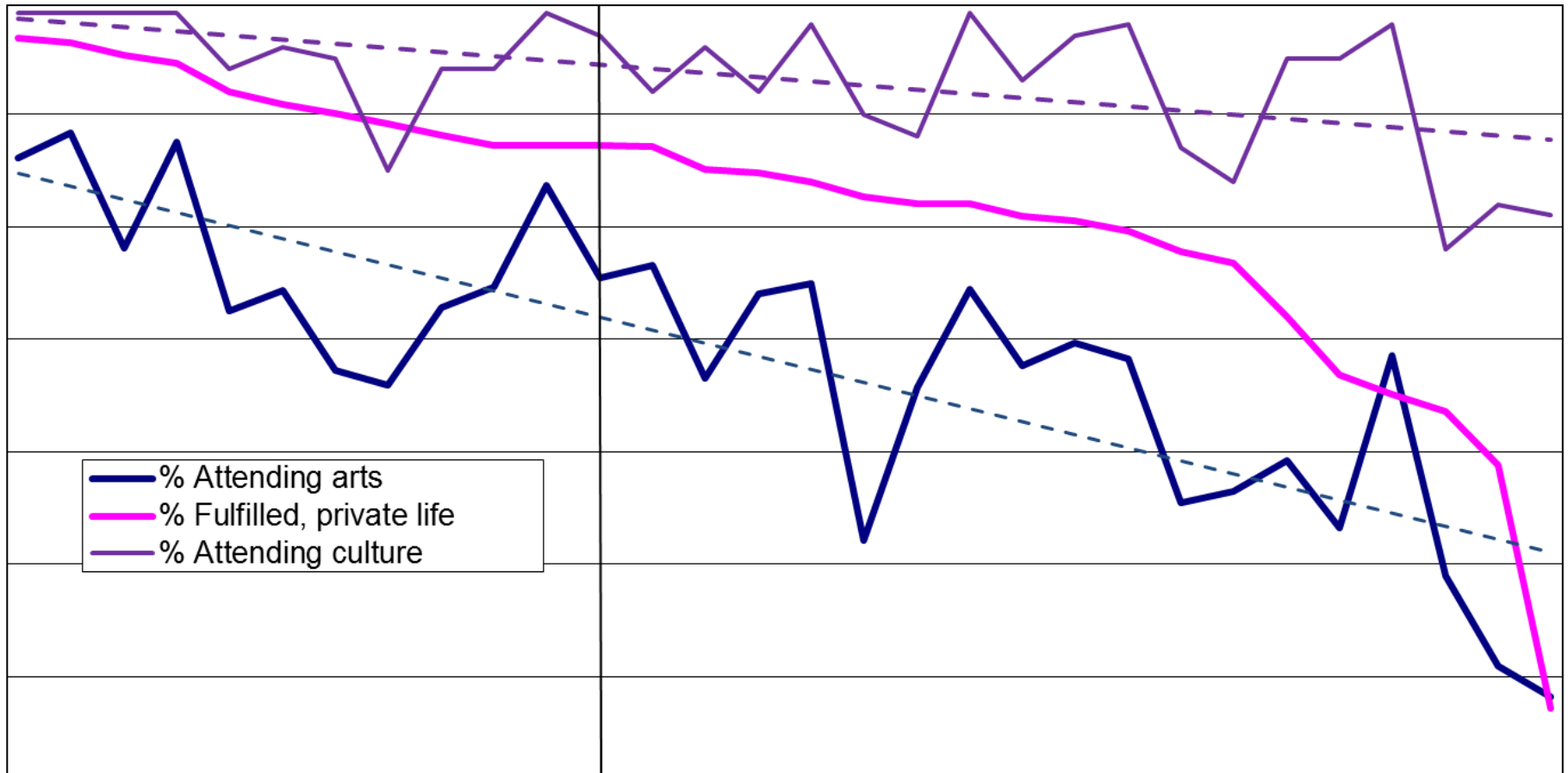
- The emotional aspect of buying art is the most important motivation - 97% of collectors surveyed
- 65% buy art for its rarity
- 49% for investment returns
- 39% as a key component in their portfolio diversification strategy
- 35% as an inflation hedge
- 23% for its portability
- 22% for social value
- 21% for tax reasons
- 20% as a safe haven

UK Museums Association – Survey 2012

- Out of 114 museum services and individual institutions, 51% reported a cut to their budgets and almost a quarter have been forced to reduce public access by closing whole sites or parts of sites permanently or temporarily (11% have closed whole sites permanently)
- 42% of respondents said there have been cuts to staff, with almost a fifth saying staffing levels were down 25% or more
- Of the respondents that have experienced cuts in 2011/12, over a third have seen a cumulative reduction of more than 35%
- 31% of all respondents had experienced a cut of more than a tenth to their budget, with a knock-on effect on public services (Half of that group had introduced or increased charges for school visits)
- The survey also showed that museums are increasingly focused on diversifying income streams, with 69% planning to concentrate more on generating income over the next year and 62% increasing their fundraising activity

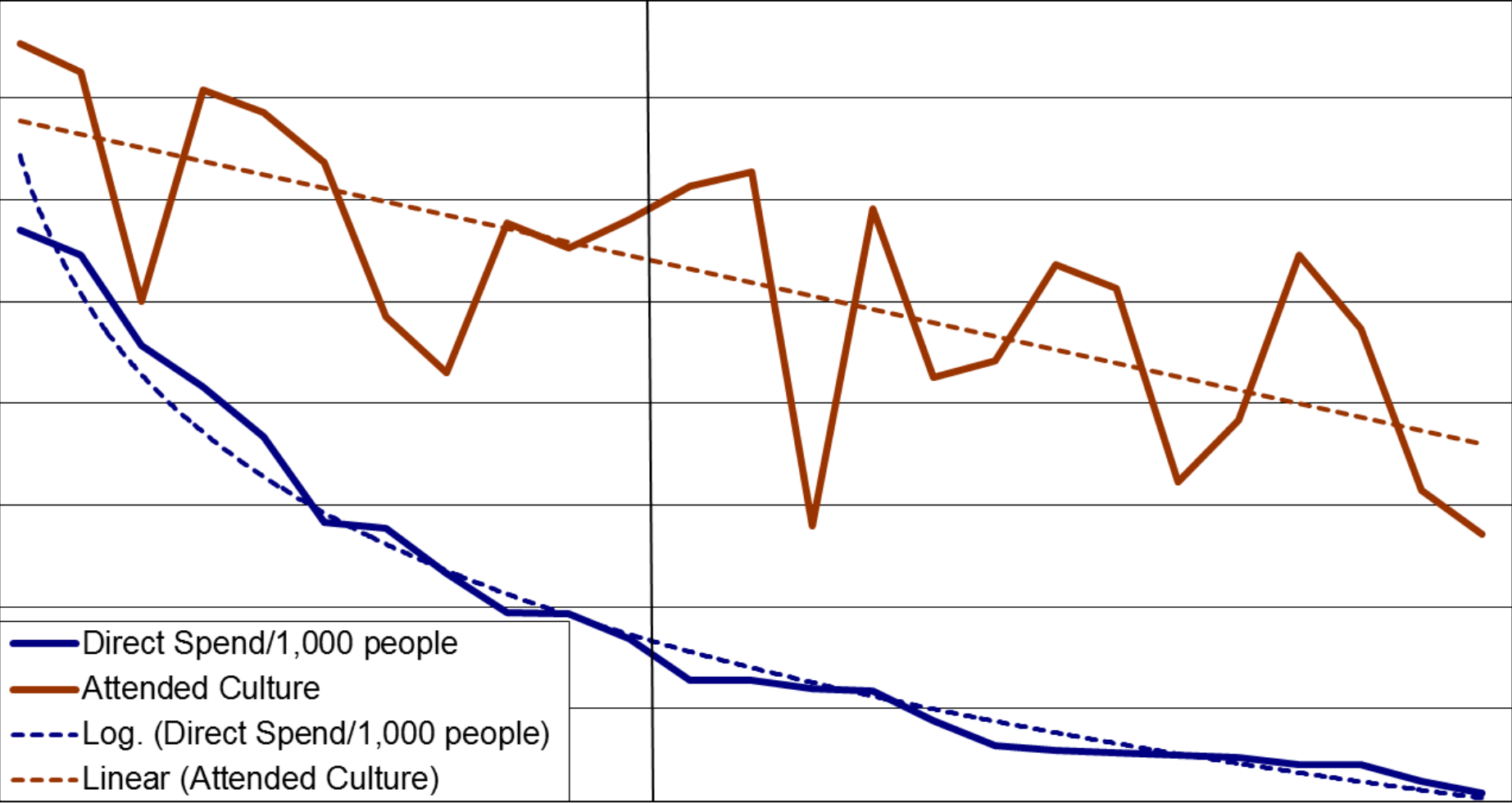
% of people fulfilled in private life compared to arts and cultural attendance

source: ESRC 2011



European direct government funding for culture compared to public attendance at cultural events

source: ESRC 2011



Art Taxation and related taxes

Art taxation

- Inheritance (IHT) or Wealth Tax
- Capital Gains Tax (CGT)
- Value Added Tax (VAT)
- Artists' Resale Rights or Droit de Suite

Related taxes

- Income Tax
- Corporation Tax
- Property Tax
- Excises and Tariffs

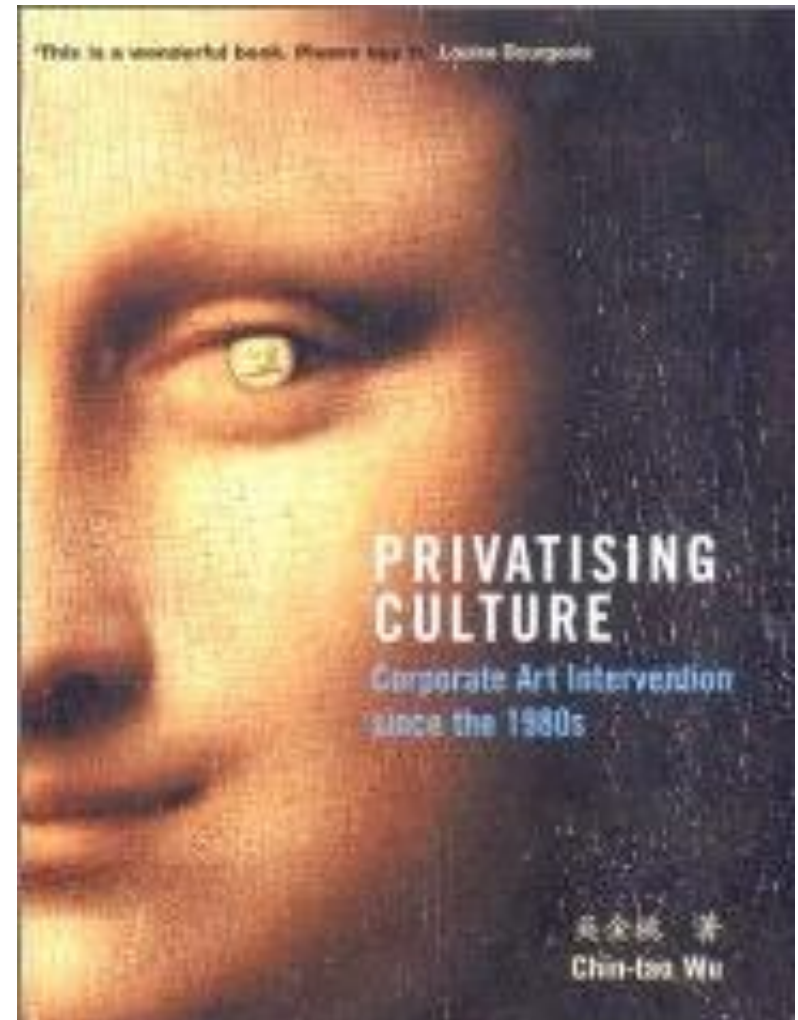
Income Tax Deductions

- Tax breaks on income for donations or retention in state
- Donations in cash or kind to non-profit/ arts institutions
- Reduce tax burden by subtracting donations value from gross income
- Valuation issues with art donations – “fair market value” use in the USA
- May be floors, ceilings and other limits

Wealth Tax

- Progressive levy charged on total net worth (assets less liabilities) first introduced in the 1970s
- Non EU-wide but applied in some countries e.g. France but not the UK *at the moment*
- Arguments against include double tax and anti-wealth creation
- Art often given outright or conditional exemption to make it a preferred form of wealth holding
- But meaning less money to spent on art altogether especially at the top end of the market

.....Art Market Regulation?



Sources

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- Economist Intelligence Unit
- Economic & Social Research Council
- Federal Reserve Bank of St Louis
- Financial Times
- New York Times
- LA Times
- Huffington Post
- OECD
- Managersofwealth.com
- International Socialist Review
- Marxist.com
- Marxist.org
- The Art Newspaper
- Antiques Trade Gazette
- ARTnews
- Art Review
- Apollo
- Art Monthly
- Artprice.com
- Artinfo.com
- Artdaily.org
- Asian Art
- Museums Journal

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