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Global Capitalism, Wealth Inequality, and the Art Sector

Andrés Solimano - Paula Solimano

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www.ciglob.org
Contact us / Contáctenos:
contact@ciglob.org
Santiago – Chile

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Chapter 5. **Global Capitalism, Wealth Inequality, and the Art Sector**

Andres Solimano

President International Center for Globalization and Development

ORCID code:

Paula Solimano

New York-based Art Writer

ORCID code:

Abstract

Neoliberal capitalism is characterized by high inequality, the increasing power of economic elites, financial volatility, frequent macroeconomic crises, the commoditization and financialization of a larger array of activities, and a retreat in the role of the state in production, redistribution and regulation. This chapter shows how these trends affect the art sector, which has become increasingly dominated by the money of economic elites, commodified and sensitive to cycles of boom and boost in the economy. The chapter examines the growing international globalization of the art market, the proliferation of freeports to hold art work free from tax burdens, the growing influence of private donors in public museums, and the shrinking of middle and small size art galleries. To counteract these trends we propose devoting more public resources to the cultural sector, encouraging art cooperatives and art commons owned and managed by artists, proper taxation on, large transactions in the upper end of the art market, and building public registries of valuable artworks.

Please provide 200 words abstract

Keywords: Please list 5 keywords

Neoliberal-capitalism, art market, commodification, freeports, artwork registries.

1. Introduction

Global capitalism in the neoliberal era features high inequality, financial volatility, frequent macroeconomic crises, the increasing power and influence of economic elites, and the commoditization of the cultural sector and social sectors. This process has been facilitated by the retreat in the role of the state in its traditional roles of production, redistribution and regulation in society. Increasingly, as a consequence of financial globalization, liquid capital circulating around the globe is being channeled into the art sector, a sector that is the main focus of this chapter. Considered one of the most unregulated and opaque industries, the art market has become a go-to place for the world's richest individuals to invest their wealth. Estimates are that billionaires (individuals/ families with net wealth over one billion dollars) hold an average between U$ 5 to 50 million in art (McAndrew, 2018, 294). While the value of an artwork has historically been considered aesthetic, as it triggers human emotions and prompts the appreciation of natural and human beauty, during the neoliberal period it has also become considered an important investment asset, competing in terms of store of value and source of capital gains (revaluation in the value of the object) with stocks, bonds, real estate, precious metals, among others.This *speculative demand for art* has to some degree always existed, yet it is currently reaching ever-higher proportions and degrees of sophistication. The most valued works of art are increasingly owned by a small elite of very rich individuals and families as a profitable asset. Furthermore, collectors are seizing the opportunity to become involved in the making and shaping of culture.

This private ownership of the most valued works of art has also led the wealthy global elite to acquire an active participation on boards of museums and other non-profit organizations, to which they lend and donate pieces from their collections and contribute funds to finance the exhibition, storage, handling, and preservation of art objects. This is shattering the balance between the private and public domains, and between academic and non-academic voices, as their decisions of sponsorship and promotion affect the creation and representation of art history in a direct manner (see, for example, Deloitte, 2018). Furthermore, this takes place at a moment when public funding in the art sector is shrinking. Despite the fact that museums are growing and attracting media and public attention, organizing and hosting exhibitions of ever-larger proportions, the direct benefits of the art world's privatization mainly go to the top private collectors along with the concomitant intermediation fees accruing to wealth management companies, family offices, commercial banks, and art investment funds, which have discovered in the art sector a lucrative niche for business. In addition, the use of freeports and other modalities of storage, shipping, and trade of art objects is oriented to virtually hiding valuable works and avoiding their taxation, along with the transactions that take place inside them. This contributes to keeping the art industry opaque, unregulated, and heavily based on personal relationships.

This chapter examines the relationship between the rise of neoliberal capitalism as a global trend of the last four to five decades and its impact and interactions with the art sector—a sector that currently trades more than 60 billion dollars annually (and growing). The chapter explores the main consequences of the commoditization, financialization, and inequality of the art sector highlighting the conflicts and contradictions between art as enjoyment and appreciation of human creativity and art as an investment vehicle, oriented to make profits for the art holders, art traders, upper-end galleries, and auction houses, as well as top artists.

The present chapter is organized into nine sections. Section 2 provides the main conceptual linkages between globalized, neoliberal capitalism and the art sector that will guide the analysis of the chapter. Section 3 provides empirical evidence on global wealth inequality, providing a material base to sustain the upper-end of the art sector. Section 4 shows the sensitivity of the art market's sales and volumes traded to overall macroeconomic cycles, along with its increasing segmentation and concentration, where a limited number of commercial intermediaries (large galleries and auction houses) account for the bulk of sales of high-priced items but only a small number of transactions.

Section 5 presents further structural features of the art sector composed of various circuits (private art market, public museums, not-for-profit segments). This section also discusses various features of the art market such as high transaction costs, lack of liquidity, the need of verifying provenance and preventing forgery and other related issues. Section 6 documents the growing internationalization of the art market, showing the withstanding dominance of the U.S, UK, and China—three countries that have displaced traditional markets such as France, Germany, and Japan in their international importance of active trading in artworks. Section 7 explores the relation between the transnational capitalist class that is dominating the art market and both private and public institutions, through which they are increasingly shaping the politics of the private and public art sectors of the cultural sphered. Section 8 focuses on the relevance of freeports as physical and virtual sites to store, trade, and ship artworks, and to escape taxation and the public viewing of art and other luxury goods, while section 9 concludes.

2. Global Capitalism, Neoliberalism and the Art Market: Main Linkages.

Since the 1970s and early 1980s, in response to the decay of Keynesianism, more active militancy of labor unions ,and attempts to democratization, there was a turn towards neoliberalism in countries such as the United States (Reagan), the UK (Thatcher) and Chile (Pinochet) that then spread out to other nations in the developed and developing world. In the new modality of capitalism, the global mobility of goods and capital acquired a higher level, economic elites become more powerful and influential, while labor unions and civil society organizations were weakened, inequality levels soared, and various activities became commodified, including the art sector (Solimano, 2014; McAndrew, 2018).

In contrast with the previous post-world war II capitalist regime, in the neoliberal era activities such as art, culture, education, health, pension funds, mass media, and others have been subject to the forces of commoditization and financialization. The new regime of accumulation has benefitted from a reduction of tax rates on capital income and corporations and a weaker regulation of business activities. The following main links between neoliberal capitalism and the art sector (paintings, sculptures, printing, and other manifestations of symbolic content and aesthetic enjoyment) can be identified:

(I) Growing influence of financial flows on the art market, art institutions such as public museums, art fairs, and art publications.

(II) Increasing links between international and national economic elites and the art market through the private purchase of highly valuable artworks, the shaping of high end art galleries, auction houses and international fairs.

(III) The use of the art market for financial diversification in the portfolios of investors and personal wealth owners affected by increasing volatility in financial markets, and the high frequency of financial classes that has characterized the transition from regulated capitalism to neoliberal capitalism in recent decades (Solimano, 2017).

(IV) Weakening of the influence of the national State and organizations of civil society on the cultural sector and particularly the art market.

(V) Increasing use of special tax jurisdictions (e.g tax havens and freeports) for the purpose of tax avoidance in the acquisition of works of art.

(VI) Close and reinforcing links exist between wealth concentration, inequality, and booming prices in the art sector. Global capitalism is constantly reproducing wealthy elites with high purchasing power that exert direct influence over the art industry. This pushes up the prices of artworks creating a positive wealth-effect for new collectors, in a spiral of booming art prices and heightened wealth inequality. At the same time, higher prices of artworks means higher incomes for artists selling their works in this segment but not for artists in the middle and low range of art sales. However, the higher price of artworks also makes them unaffordable to potential buyers from the middle and working classes, and even museums and local governments.

The rest of the chapter examines various of these linkages providing empirical evidence and analysis.

3. High Global Wealth Inequality

A salient feature of 21st century global capitalism is the extent of wealth concentration at the top. Adults with net wealth of over U$ 1 million—the group of so-called High Net Worth Individuals, HNWIs—own an overwhelming 46 percent of the world's personal wealth, while they represent nearly one percent of the total adult population (Credit Suisse, 2017a and b).

The structure of the top of the global pyramid of wealth distribution is of high significance to the art market, as it is driven by sales to individuals pertaining to this segment, where they perform as much as wealthy speculators as they do as avid collectors. According to Global Wealth Databook (Credit Suisse, 2017b), there are around 36 million HNWIs worldwide, and close to 150,000 "ultra-HNWIs" (people with net wealth over U$ 50 million). Among the individuals with net wealth above U$ 50 million, there is a minuscule group of 2,232 billionaires (with a net wealth above U$ 1 billion) at the top (Credit Suisse, 2017a).

The country that concentrates the largest number of millionaires (43 percent of the world's HNWIs), ultra-millionaires (49 percent of global ultra-HNWI), and billionaires (32 percent of them), is the United States, see Table 1 (for 2017). Unsurprisingly, the US also hosts the largest art market in the world in terms of volume and share of global sales (see section Section 4). China, on the other hand, after several decades of high growth, which has led, in contrast with the reality of the era of Mao-Tse Tung, to the formation of a wealthy elite and worsening inequality, comes third in terms of millionaires (6 percent), and second in terms of ultra-HNWIs (13 percent) and billionaires (26 percent). In terms of global importance in the global art market, China is alternating in second and third place with the United Kingdom (Solimano, 2019). This reflects the correlation that seems to exist between the concentration of wealth at the top and growth of the art market (with increased shares of its upper end in total sales of artwork).

HNWIs (Wealth above U$1m)		Ultra-HNWIs (Wealth above U$50m)		Global Share of Dollar Billionaires in 2017	
	Share		Share		Share
US	43%	US	49%	US	32%
Japan	8%	China	13%	China	26%
China	6%	Germany	5%	Germany	4%

Italy	4%	UK	3%	Russia	3%
France	5%	France	2%	Sweden	2%
UK	6%	Australia	2%	UK	2%
Germany	5%	Canada	2%	Switzerland	2%
Canada	3%	Switzerland	2%	India	2%
Australia	3%	Italy	2%	Turkey	2%
Korea	2%	Japan	1%	Canada	1%
Others	16%	Others	19%	Others	24%
Total	100%	Total	100%	Total	100%

Table 1. Global Share of Millionaires (HNWIs), Ultra-Millionaires (Ultra-HNWIs) and Billionaires in Total Personal Wealth (percent, 2017). Source: Own-elaboration based on McAndrew, C. (2018) and Credit Suisse (2017a and b).

The world's wealthiest elite—which for the purpose of this chapter we will call the transnational capitalist class—has developed several outlets to allocate their wealth, such as stocks, bonds, mutual funds, gold, commodities, real estate. More directly productive activities are in factories that produce goods and services.

The wealthy also want to reduce tax payments. Here the art market provides a convenient vehicle, as it is lightly regulated and many mechanisms have been developed to avoid taxation, such as freeports.

4. The Art Market: Volatility, Concentration and Polarization

The art market displays at least two important features: (i) a considerable sensitivity to macroeconomic cycles of expansion (upswing) and contraction (downswings) or cycles of booms and busts, (ii) a pattern of polarization in terms of value of sales and volumes of artwork traded. As a whole, the experience of the last decade or so indicates that the global art market has behaved in a *pro-cyclical way*, with aggregate sales/volumes *rising in the upswings*, and *declining in the downturns* of the business cycle.[1] In addition, the benefits of the recoveries (and booms) in the art market tend to go to the high-segment of the market, while downturns and crises may affect all segments. As shown in Table 2 and Figure 1, both sales and volumes fell sharply in 2009 at the bottom of the global financial crisis, yet recovered rather forcefully afterwards. The aggregate value of sales in the global market of art was U$ 63.7 billion as of 2017, up from $39.5 billion dollars in 2009, and preceded by $65.9 billion dollars in 2007.

	Value (U$m)	**Volume (m)**
2007	$ 65,875	49.8
2008	$ 62,020	43.7
2009	$ 39,511	31.0
2010	$ 57,025	35.1
2011	$ 64,550	36.8
2012	$ 56,698	35.5

[1] The intensity and distributive impact of the business cycles can be measured by short term variations in Gross Domestic Product per capita, industrial production, cycles of investment and variations in income and wealth distribution, see Solimano (2017 and 2020) for statistical measures and further discussion.

2013	$ 63,287	36.5
2014	$ 68,237	38.8
2015	$ 63,751	38.1
2016	$ 56,948	36.1
2017	$ 63,739	39.0
Growth 2016–2017	11.9%	8.0%
Growth 2007–2017	-3.2%	-21.7%
Growth 2009–2017	61.3%	25.8%

Table 2. The Global Art Market: Value and Volume of Transactions. Source: Elaboration from McAndrew, C. (2018).

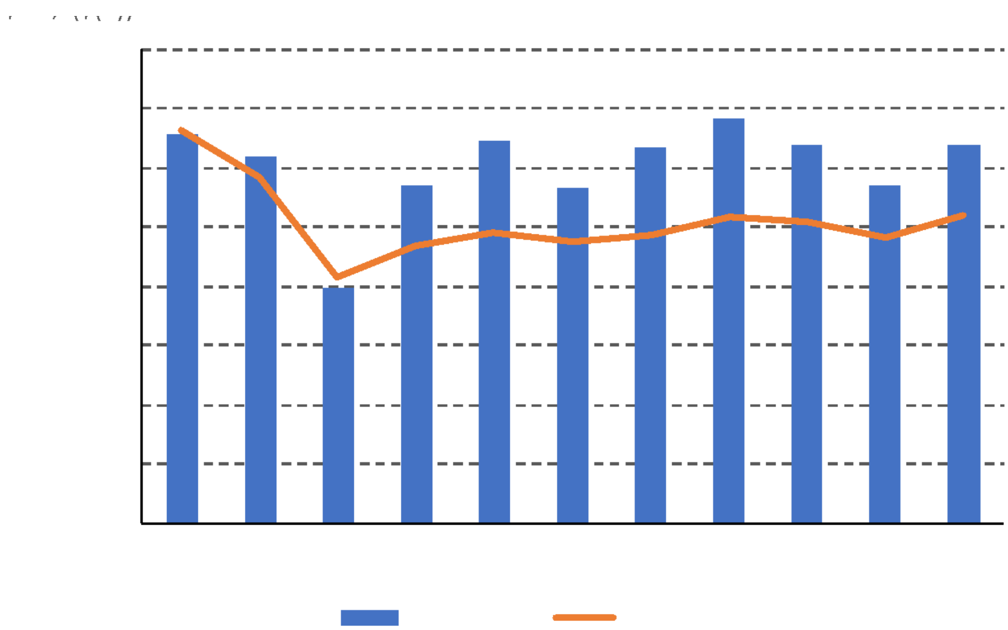

Figure 1. The Global Art Market: Value and Volume of Transactions, 2007-2017. Source: McAndrew, C. (2018, p 29).

In line with these asymmetries, the recovery after the 2008-09 global financial crisis mostly favored the large auction houses and large galleries, rather than galleries in the middle- or lower-end range. In fact, following 2009, galleries with turnover in excess of U$ 50 million had yearly increases of over 10 percent, while sales declined for dealers with sales less than U$ 1 million (McAndrew, 2018). Galleries with annual sales below U$ 250,000 did worse in the market, showing that the recent recovery and boom in the art market has benefitted the high-end (McAndrew, 2018). It is worth mentioning that the high end of the market concentrates a very thin segment of artworks produced by top artists, while the remaining majority of them supply the middle-range and lower-end of the market through the segment of galleries, dealers, and auction houses.

The global art market can, therefore, be characterized as a *polarized market*, as the bulk of the *volume* of sales (number of transactions) is concentrated at the *lower-end* of the market, while the bulk of the *value* of sales (prices times quantities sold) is concentrated at the *higher-end* of the market (Table 3). The *middle range* of the market in terms of value and quantities is squeezed by the upper tail (in value) and the bottom tail (in volume). This is exacerbated by the presence of powerful dealers at international art fairs, which take place in cities like New York City, Miami, Basel, London, among others.

It is important to note that the modalities for gathering buyers and sellers of artworks have changed over time, with visits to galleries having declined in recent years. The *auction segment* of the market (part of the secondary market, a traditional tool for selling art that dates back to the seventeenth century in London) now accounts for almost half of the total fine art sales in 2017—$28.5 billion of $63.7 billion (McAndrew, 2018, 16). This segment is also dominated by very few actors, namely by the houses Christie's, Sotheby's, Poly Auction, China Guardian, and Phillips. In fact, in 2017 the fine art revenue generated by Christie's and Sotheby's represented over 75 percent of the fine art revenue of the five mentioned houses (McAndrew, 2018, 106). Despite having created the value of the artworks in the first place, artists are largely subject to the rules of the speculative market,[2] which shows that, when the market is dominated by powerful intermediaries and financial companies, those who have created the artistic value have limited control on the destiny of their creation (a feature of alienation).

	Value	**Volume**
Lower-end (Below $50k)	8.6%	89.8%
Middle Market ($50k - $1m)	27.9%	9.4%

[2] See https://www.nytimes.com/2003/11/27/arts/damien-hirst-makes-a-strategic-purchase-his-own-work.html, and Viveros-Fauné, C. Damien Hirst (1965–2012): In Memoriam. Village Voice. January 18, 2012. Retrieved from https://www.villagevoice.com/2012/01/18/damien-hirst-1965-2012-in-memoriam/.

High-end (Above $1m)	63.5%	0.9%
Total	100.0%	100.0%

Table 3. Share of Lots Sold and Total Value at Global Fine Art Auctions in 2017 by Price Bracket. Source: McAndrew, C. (2018).

Both galleries and auction houses are characterized by highly personal relations, secretive transactions, and speculative practices. This is especially so among the most powerful. As important galleries pose more obstacles to incorporating new buyers in their business—in many cases, selecting who to sell their artworks to, and sometimes having waiting lists to acquire pieces by certain artists—some collectors prefer to buy at auction houses. However, secret financial arrangements also take place in the latter. Information regarding the estimates, say, the price at which the pieces are expected to sell, are often subject to manipulation and are unevenly distributed to prospective buyers. Many times, the prices are set unrealistically low, which attracts potential buyers, and in other cases, the prices are inflated, detracting buyers from building interest in particular pieces—which are likely to be sold to preferential bidders.

In short, similar to what happens in other markets, such as real estate, finance, and retail, the art market increasingly leans towards a "winners-take-all-market," in which the high prices, profits, and commissions are captured by a small minority of galleries and auction houses that are well connected and have ample financial resources to operate. In turn, "superstar" artists—either living or dead—dominate the upper end of the market, bringing some fierce competition among dealers to get the most sought-after works by the masters into the market.[3]

The prices of important artworks by Old Masters and Modern artists can be extravagant—especially in auctions at the aforementioned powerful houses. Last year, a Leonardo Da Vinci painting titled *Salvatore Mundi* sold in New York's Christie's for U$ 450 million, the highest price ever paid for a work of art. In turn, pieces of Modern art (such as those by Van Gogh, Klimt, Kandinsky, Monet, Leger, and Chagall) sold in the price range of U$ 11 to U$ 80 million, and those by top Postwar and Contemporary artists such as Andy Warhol, Jean-Michel Basquiat, Roy Lichtenstein, Mark Rothko, Gerhard Richter, and Cy Twombly sold in the range of U$ 20 million-U$ 110 million (McAndrew, 2018). These prices are affordable by a minuscule portion of the global population and reinforce the elitist nature of the market.

5. Segments of the Art Market, Transaction Costs, Liquidity and Other Peculiarities.

We can define the "art sector" as comprised by three segments or circuits. The first segment is a private market segment dominated by the forces of supply and demand for artworks. It is, however, a segmented private market with wealthy buyers traditionally going to the

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[3] Rosen (1981) examined the economics of superstars in arts, sports, and entertainment, noting that very big differences in earnings coexist with rather small differences in talent among market participants (winners-take-all syndrome). Solimano (2008, 2010) expanded Rosen's and other frameworks to examine the global markets for talent in different fields.

upper-end of the market while the non-rich acquire artwork in the middle and lower end of the market. A second strata is a public segment dominated by public museums and related public organizations. A third segment is the not-for profit private sector of art cooperatives, small galleries, and artists organizations (see Figure 2).

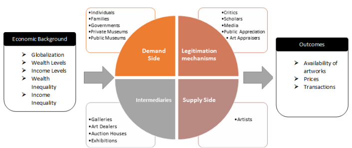

Figure 2. Diagram of the Art Market.

It is important to recognize some special features that differentiate the art market from traditional financial markets (for example, the stock market and the bond market) and property markets. In general, a work of art such as a painting, sculpture, or print is not *divisible*: until very recently a person could not buy pieces of an artwork. However, new techniques of securitization are now able to circumvent this impossibility and now a person may acquire, for investments purposes, only a share (percent) of a whole work of art. In addition, the *liquidity* of the art market is often much more limited than the liquidity of trading in stocks, bonds and foreign exchange. In other words, selling artwork (turning it into money) is often more difficult than selling stocks or bonds and converting it into money.

Furthermore, the *transaction costs* of trading in art are not trivial. For example, finding an appropriate dealer for buying or selling art often entails paying certain fees to the dealer for example for the verification of authenticity and provenance of the artwork. Table 4 presents various differences between the art market on one side and the stock market and property (real estate/land) markets on the other, across criteria such as liquidity, divisibility, transaction costs, polarization, transparency, regulation.[4]

Regarding the question to what extent investing in art is a profitable endeavor, empirical studies using historical data of prices of works of art (often based on auctions) and changes of valuation of entire collections, such as the Keynes collection,[5] show that the average rate of return (capital gains over acquisition values) from trading in artworks *does not* differ, substantially, from the return of holding stocks or bonds once adjusted by risk premiums.[6]

Another feature worth considering is the extent that artworks serve as a *refuge — a safe haven asset* — at times of depression, economic crises, and political uncertainty. In financial theory, a *safe haven asset/investment* is one that is either uncorrelated or

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[4] For further analysis on these dimensions see economic-oriented journal articles of the art market such as Baumol (1986), Mei and Moses (2002), Korteweg, Kraussl, and Werjijmeren, (2016). Books, with an economic bent, comprise Adam (2014 and 2017) and Robertson and Chong (2018).

[5] John Maynard Keynes was a British economist who had also an innate love for the arts and belonged to the Bloomsbury Group, formed by free-minded artists and intellectuals in the first three decades of the 20th century. Keynes's art collection, currently valued in around GBP 70 million (he spent near GBP 13,000 in his art portfolio valued at purchasing prices) is located in Kings College and the Fitzwilliam Museum in Cambridge, England.

[6] Chambers, Dimson and Spaenjers , (2017); Worthington and Higgs, (2004).

negatively correlated with other assets of a portfolio. This feature of zero or negative correlation contributes to *diversify* a portfolio. Within this framework, Solimano (2017) investigates the extent to which *gold*, behaved as a “safe haven asset” during two international slumps: the great depression of the 1930s and the stagflation of the 1970s. In these episodes stocks and real estate suffered depreciations in their economic value while the price of gold *increased*.

The conclusion of that research is that gold behaved as a safe haven asset in these two international crises. Now, the question is whether *art* can be a safe-haven investment and play a similar role as gold behaving in a *counter-cyclical* way in downturns. Initial evidence (see Table 2 and Figure 1) shows that *average* prices and volumes in the art market declined in the Great Recession of 2008-09 in line with the decline in the price of stocks and real property. In that sense, the art market as a whole failed to serve as a safe haven/counter-cyclical asset in that international recessive episode. However, more research is needed to fully answer this question, as it is likely that some specific works of art (e.g of Old Masters) may have preserved their value in the crisis of 2008-09 and may continue to do so even in the event of future economic slumps. Assessing the safe asset feature of artworks requires estimating the *correlation* between art prices and equity and property prices *during business cycles and crises periods*.[7]

[7] Solimano (2019, forthcoming) provides a historical analysis of various crises and recessions in the 20th century until the present.

	Type of Market		
	Artwork	Stocks	Property
Feature			
Liquidity	low	high	low
Divisibility	low	high	low
Polarization	high	moderate	moderate
Regulation	low	high	moderate
Transparency	low	high	moderate
Transaction costs	high	low	intermediate
Source: own elaboration.			

Table 4. The Art Market and the Stock and Property Markets.

5. Globalization of the Art Sector

Economic globalization, wealth concentration at the top, and the rise of new economic powers such as China are mega-trends that fuel the expansion of the global art market and its concentration in very few countries. As a result of the creation of vast wealth during the recent decades in China, Japan and other economies of that region, Asian markets have become important players in the art market, entering a market that has historically been dominated by the West. More specifically, in the 1970s and 1980s, the Asian regional art market was dominated by Japan, as it experienced high rates of economic growth, accumulated assets from the rest of the world (running balance of payments surpluses) and the stock and real estate market boomed. In addition, the yen appreciated against main Western currencies, making it cheaper for those living in Japan to buy Western art. The Japanese market, however, crumbled in the early 1990s, as Japan's stock market collapsed, and the economy entered a long period of stagnation with depressed asset prices that destroyed large amounts of financial wealth, leading to plummeting sales by Japanese art galleries and auction houses. In contrast, China grew very fast for three decades since the 1980s and a vibrant art market began to develop. Consequently, main galleries and auction houses have established in main Chinese cities, and the number of auction houses has sharply increased.

While strong players have emerged in the art market, with a rather recent incorporation in the global business, the United States withstands as the largest art market in the world. In 2017 it concentrated 42 percent of the share value in artworks globally traded, 25 percent of art collectors worldwide, and the largest share of top selling living artists (McAndrew, 2018, and Bossier et. al., 2014). The American dominance is associated with its large infrastructure of galleries and auction houses, favorable tax and regulatory frameworks for trading art, and, as shown in the section 3, holds the largest concentration of personal wealth in the world.

The share of China in worldwide art sales was second in importance in 2017 (21 percent) but fell to 19 percent in 2018 being surpassed, by two percentage points, by the

UK (see figure 2). The combined art market of the USA, UK and China concentrated 84 percent of total sales in art in 2018 followed by France, Germany and Switzerland (Mc Andrew, 2019).

6. The Transnational Capitalist Class and its Influence on Public Art Institutions

Belonging to the transnational capitalist class/global elites, the top art collectors are concentrated in a few cities and in the most dynamic sectors of the current capitalist economy. The three biggest collector cities are New York, London, and São Paulo, the latter home to more than half of Latin American art collectors. Among other significant cities are Miami, Los Angeles, Paris, Berlin, and Hong Kong, as they are home to art dealers and artists and artistic production, and host satellite fairs and biennials. The sources of wealth of these collectors are largely finance, real estate, construction, and retail, followed by extractive, media, advertising, and other industries. Inheritance could be another important source, although an empirical analysis of the billionaires list of Forbes Magazine presented in Freund (2016) shows that "self-made" (e.g whose wealth is not inherited) billionaires comprise an important proportion of the total number of billionaires of several countries.

The injection of private resources into art has become increasingly relevant as the state, during the neoliberal age, has tended to withdraw its support for cultural institutions, shrinking public funding for art. Funding has thus been channeled into the field of visual art through the purchase of artworks and the sponsorship of art institutions, among other initiatives. This pattern of substituting public funding by private funding is in line with the growing marketization and privatization of a host of activities in the neoliberal phase of global capitalism, which range from education and health to culture and the arts.

It can be argued that the scarcity of public funding for art, and the boom of single-collector museums (private institutions) potentially pose a threat to the existence and/or financial health of public museums. This is because their financial ability to acquire works of art, build, remodel, and expand their exhibition spaces, and organize and host large-scale shows depends largely on the priorities of the transnational capitalist class and their charitable contributions of money and artworks. This dependence is also due to the fact that historically important objects have reached extravagant prices at auction, where works of art are “flipped” (purchased and sold in a short time frame) to earn a quick profit. Paradoxically, the individuals involved in these practices are often those who then contribute to the institutions at stake.

The rise of these prices also pushes up the costs of security, maintenance, and insurance—costs that become increasingly burdensome to large museums in wealthy countries, and simply unaffordable by those in developing or poor nations. Other significant costs are related to property and rent, which are continually rising in the key cities of the art industry. However, as shown by the *2014 Art Collector Report*, in the United States alone, 53 percent of the top collectors are involved with public museums, and over 90 percent of art collections held in public trust by American museums have been donated by private individuals. This suggests that the growing presence of private institutions does not necessarily lead to a demise of museums—at least not among the internationally revered institutions (Bossier et. al., 2014). What is perhaps more worrisome is the fact that the bulk of these donations, in terms of value, is directed to large museums, such as New York's MoMA, the Metropolitan Museum of Art, and the Guggenheim Museum, rather than those located in poor, rural, and/or overlooked areas. In 2009, for example, more than half of the contributed income—individual or corporate gifts and grants—went to two percent of arts organizations, the budgets of which exceeded U$ 10 million (Horwitz, 2016).

As public funding becomes less available and smaller institutions have little or no access to wealthy donors, they are bound to face less resources and less attention by the public and media, as their modest initiatives are met with extravagant exhibitions at renowned museums and galleries. One can only wonder how this affects their ability to attract visitors and—on a larger scale, tourists—and more importantly, their possibility of participating in the creation and narration of collective identity. The MoMA in New York has the largest number of members of the Forbes 400 list of all the corporations and nonprofit organizations worldwide, beating rich companies such as Google and Facebook (Kroll, 2015).

As we ask what motivates these wealthy individuals to donate to the arts, we must also remember that their donations are not only directed to this sector. The whereabouts of these donations, in fact, don't always align with the political agendas of the cultural institutions in which they are involved. This can be observed in the political parties and candidates to which this transnational capitalist class contributes.

In her thorough research, Fraser (2016) has found that many of the people involved in purportedly progressive museums are in fact active contributors to conservative political parties. More precisely, in Fraser's encyclopedic book *2016: Museums, Money, and Politics*, the author shows that 70 percent of total political contributions from museum donors of the Museum of Contemporary Art, Los Angeles were directed to Republican/ Conservative Parties. Similarly, more than 65 percent of reported political contributions by board members of the Whitney Museum of American Art went to the same parties (2016, 928). This suggests a somewhat contradictory relation between arts giving and political interests, as it could be easily inferred that supporting museums with progressive agendas goes hand-in-hand with supporting political groups with similar values and priorities.

In regard to art institutions, by loaning and donating resources and artworks, these billionaires earn influential positions among advisory boards and committees, where they gain leadership roles and serve as trustees, shaping the agenda, mission, and values of the world's most important museums. They make decisions regarding acquisitions and exhibition programs—which directly impacts the work of curators, researchers, archivists, and art-handlers—and are given the opportunity of showcasing their works in the most-visited shows (including their names in the provenance of such pieces). This exposure ultimately raises the symbolic and financial value of their entire collections. Additionally, these philanthropic endeavors provide the transnational capitalist class with access to a global cultural elite that attends biennials, art fairs, and major exhibitions, and thereby gives them status, symbolic capital, along with the opportunity to create and nurture a philanthropic, arts-loving image.

This strong involvement in art institutions—either private or public—also leads collectors to enjoy special tax treatments, which is an important incentive to consider. Tax breaks are given according to the financial value of their donations, which are backed up by experts and appraisers. These may be art historians, dealers, conservators, or others, who possess a broad knowledge of the art market, and the standards, principles, and methodologies that surround art pieces. Incentivizing collectors to donate artworks to public museums, some institutions have inflated the prices of artworks in order to facilitate them with larger tax-deductions.[8]

7. Hiding Art in the Shadows: The Emergence of Freeports

The world's top collectors do not only house their belongings in their private residences, museums, or lend or gift them to nonprofit organizations: they also put large parts of their collections in storage, hiding them from the public view, and even from themselves. Special storage spaces existing outside of the territorial jurisdiction of any country are called *freeports*, legitimate facilities that were historically intended to store goods while they were

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[8] Such was the case of Jiri Frel, the Getty Museum's former curator of Greek and Roman art, who helped donors obtain high appraisals on gifts made to the antiquities department. This would translate into higher tax deductions. For more on Mr. Frel, see *The New York Times*, 1987, "The Getty Reports a Scandal."

traveling to other destinations. As they were considered to be in transit, their duties and taxes were suspended until the goods reached their supposed final destination. They arose in Geneva, Zurich, and Luxembourg, in tax-relieved locations, and have expanded to others like Monaco, Singapore, and Beijing.

As works of art and collectibles are being held in these large, high-tech warehouses, their commercial value is often increasing over time. No restrictions are placed on who may use freeports (as long as fees are paid) and all of them are open to individuals, as well as to business entities, benefiting both from the tax-suspension system. While not all taxes are exempted from these facilities, value-added taxes are, as well as sales taxes, which is crucial considering that some pieces of fine art, including high-value artists, such as Amedeo Modigliani, Vincent Van Gogh, and Paul Cézanne have increased substantially, depriving the state of the corresponding revenues.

Unsurprisingly, the geographic location of freeports for artworks and luxuries (expensive cars, wine, private airplanes) tend to coincide with the locations of tax havens for outside bank deposits: Switzerland, Luxembourg, Singapore, among others (Solimano, 2018a ad 2018b). In a sense, freeports are contributing with a "service" to the growing "*industry of asset protection*" catered to the very rich. Therefore, the protection of these objects, taking place in these tax havens or secrecy jurisdictions, is both physical and financial: highly-valuable physical objects are subject to museum-like standards, and are held in custody under high-security standards. In turn, their financial protection is basically derived from the tax-free status enjoyed by freeports. This affects the global art scene, as not only the works, but also the transactions and protocols taking place are hidden from the general public.

8. Conclusion: Recommendations for a More Open, De-commodified and Autonomous Art Sector

In this chapter, we have shown that the art sector has been affected in important ways by critical features of global capitalism such as high wealth inequality, commodification, the increasing influence of the financial sector, industry concentration and polarization, and the increasing purchasing power of economic elites. We observe that money earned in finance, real estate, technology, retail, exploitation of natural resources and other activities is now being channeled to the upper end of the art market. In addition, private collectors have much more influence now in shaping the activities of public museums and other cultural organizations.

Currently, a small number of auction houses and art dealers (the upper end of the art sector) connected with art funds, family offices, commercial banks, and hedge funds manage the trading of high value artwork directed to very affluent customers. This upper-end accounts for the bulk of sales in value terms but registers, in relative terms, a small number of transactions and its contribution to employment generation in the art sector is rather small. On the other hand, the segment of middle and small-size galleries that generate most of the employment in the art sector is shrinking as it faces difficulties to compete with the resources of the upper-segment.

The trends of financialization and commoditization, exacerbated in the neoliberal era, have turned investment in artwork as a strategy that allows diversification of portfolios for wealth holders. New sophisticated financial mechanisms have been created to protect wealth and reduce taxation such as the use of tax-free storage in freeports to store, preserve, handle, and trade art. This shows the opacity and lack of regulation of the high-end of the art market and illustrates the contradictions between art as a financial investment affordable by the rich and art as aesthetic enjoyment available to the mass of the population.

A main challenge is how to moderate and revert these trends of commoditization, financialization and reduce the growing influence of big capital on the art sector. Progressive transformations in the art sector need action in various fronts: first, *reducing the influence of big money* in the sector is important. This may require the state to re-assert its influence in the art sector through *adequate government funding of public museums*, setting-up facilities of income support to emerging artists, the financing of free-access exhibitions and other initiatives. Advanced capitalist countries such as France, the United Kingdom, Germany, Spain and others mobilize substantial public resources in the funding of public museums and exhibitions. Historically, in Latin America, Mexico and to a lesser degree, Argentina are two countries that have mobilized significant budgets directed to the cultural sector, supporting public museums, exhibitions and helping promising artists.

These countries now hold leading markets, which has local artists, to some extent, from the constraints of depending upon state grants and resources to work and live. This points to the benefits of having both public and private funds circulating in art.

A second area is to advance in the de-commodification of the art sector by encouraging the *autonomy of artistic collectives, the formation and consolidation of art cooperatives owned and managed by artists, and art-commons that are guided by motives different from obtaining monetary profits*. This poses organizational and financial challenges in an era in which credit and financial instruments are geared to the financial needs of the most profitable sectors of the capitalist economy. These sectors, however, often do not coincide with the middle and small scale art sector and more generally with creative activity freed from the pressure to sell in markets. Third, there is a need for *revamping tax codes and set-up new regulations relevant to the art sector*. A new institutional framework governing the art sector must promote fair taxation of art work transactions, particularly at the upper-end of the market, at national and international levels.

Another recommendation is the preparation of a public registry of valuable art objects that would be available to both *tax authorities* and *public agencies holding a mandate to custody the cultural patrimony and heritage of countries*. In a market in which secretive deals and manipulative practices are widespread we recommend establishing *higher degrees of transparency* in the transactions that take place in the art market at auctions, galleries, and in informal sales. The compilation of a *public database of sellers, buyers, and prices at which artworks* are sold would be an important step in that direction.

Under a more progressive tax regime, revenues can be re-channeled into the art sector through the financial support of art institutions, non-profit galleries, and individual artists and collectives. Alleviating these actors from the burden of a highly concentrated and polarized market could allow them to belong to a broader, more pluralistic pool of artistic creators and agents, which could benefit historically marginalized communities in several manners. By divorcing mainstream institutions from their dependence on private donors, they could have a more effective autonomy in terms of including overlooked artists into their programs, as they can draw a line that does not necessarily equate financial value to aesthetic value. Funding must also be guaranteed to actors in the periphery of the art industry: allocating resources to poor, rural cities, and developing and underdeveloped countries to sustain their art spaces is also needed. As private groups and wealthy elites from emerging economies have begun participating in the global art sector, that does not imply that artists from the developing world, in significant numbers, are also doing so. Furthermore, it is very important to *regulate* in an intelligent way the art market, whose ups and downs are closely correlated with business cycles, macro-financial disturbances and global wealth inequality in a reinforcing spiral.

As shown in this chapter, the field of visual art is not as self-referential, autonomous sector as it is believed to be. It holds close relation with other seemingly different and distant spheres, ranging from the industries of finance and real estate to the creation of historical narratives and collective identity. A more progressive, interdisciplinary academic research must be conducted. Ideally, economists and sociologists would collaborate with art historians and philosophers to explain the fluctuating relations between market value, historical value, and aesthetic value, including policy-makers in their discussion.

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