CIGLOB
CENTRO INTERNACIONAL DE GLOBALIZACIÓN Y DESARROLLO
International Center for Globalization and Development

Documento de Trabajo Working Paper N°62

Article prepared for *Domenica of Sole 24 ore*.

The Art Market at Times of Economic Disarray and High Inequality

Andrés Solimano[1]
October 12, 2021

In a world of increasing influence of private wealth and finance there is a permanent tension between the dimension of art as aesthetic appreciation open to everybody and art as a return-generating investment. A high volume of circulating liquidity worldwide is being channeled to acquire high-value art. Too much money chasing a limited supply of artwork increases prices turning art unaffordable to the non-rich. Wealth-inequality, in turn, has led to the segmentation and duality of the art market: near 65 percent of the global sales in art but only around 1 percent of the total transaction volume is conducted in the upper-end of the market (pieces worth more than one million dollars). This sector is formed by big international galleries and large auction houses. In contrast, the segment of medium and small size galleries generating near 80 percent of employment creation and 99 percent of traded volume accounts for only 35 percent of global sales.

In recent years, the art market registers global annual transactions between 60 to 70 billion US dollars. At the same time, there is an active market for stolen, forged, and faked artwork whose annual sales are estimated in the range of U$ 6 to U$ 10 billion. Investing in

[1] The author holds a Ph. D in Economics from MIT and has just published *The Evolution of Contemporary Arts Markets. Aesthetics, Money and Turbulence*, Routledge UK, 2021.

art has a dark side, though, if used as a vehicle for money laundering and tax-avoidance by individuals who take advantage of the unregulated character of the art market.

Art prices can reach extravagant levels. Recently, on March 11, 2021, a digital collage named *Everydays: the first 5,000 days* by the digital artist Mike Winkelmann -- aka Beeple -- was sold at Christie's for USD 69.346 million. This was the first piece of purely digital art sold by the auction house through NFT (Non-Fungible Token) and paid mostly by Ether (the cryptocurrency of Ethereum). Early in 2017 a Leonardo Da Vinci painting titled *Salvatore Mundi* sold in New York's Christie's for U$ 450 million, the highest recorded price ever paid for a work of art (in this case for a dead artist). The valuation of art is a very complex topic as its "fundamental value" is hard to define. Long ago, the British economist John Maynard Keynes, underscored the complications posed by uncertainty on the valuation of long-lived economic assets, a notion that can be extended also to the valuation of both promising and consolidated artist's works.

The art market is affected by physical indivisibilities, asymmetric information, significant transaction, and liquidity costs risking its efficiency. Geographically, sales are concentrated in three countries: the USA, China, and the UK, accounting for more than 80 percent of global art sales followed by France, Switzerland, and Germany. The rise of the Chinese art market in the last two decades has been impressive.

Macroeconomic cycles and crises affect the art market. Average art price indices have behaved in a pro-cyclical way in the four main recessions of the last 90 years: the great depression of the 1930s, the stagflation of the 1970s, the global financial crisis in 2008-09, and the Covid -19 crisis. Nonetheless, prices of top artists generally do not fall in periods of economic downturn, disarray, and crises. Like gold they seem to be a counter-cyclical asset (a safe-haven *per excellence*). Investors can seek refuge for risk in buying outstanding art pieces.

New technologies and financial products are having an impact on the art market. Sales are increasingly conducted on-line, and financial techniques of collateralization and securitization are being used in art trade. The blockchain with encrypted transactions and "Non-Fungible Tokens" potentially provides a way-out to the perennial problems of authentication in a market in which forgery, theft and faking are common practices.

Looking at the future, some public policy transformations in the art sector are needed to regulate the excessive influence of big money in the sector and for ensuring that art can be made available to everyone, at least to enjoy. An agenda in this area must include several components: (i) a better balance between private and public funding of the arts to avoid an excessive influence of wealthy patrons in the board of directors of cultural institutions; (ii) adequate public funding of museums and the financing of free-access exhibitions and other initiatives to make art available to most of the population; (iii) the search and support for young talents to ensure the medium run viability of the art sector. This must include income support mechanisms oriented to encourage emerging artists; (iv) a certain de-commodification/de-privatization of the art sector is needed to reduce the excessive influence of the profit motive in the setting of cultural priorities; (v) increasing public and non-profit support of artistic collectives, art cooperatives owned and managed by artists, and art-commons; (vi) fair taxation of high value art transactions at national and international levels earmarking the revenues so obtained to finance public museums, giving grants to artists and the teaching of art to children at schools and the youth in universities. These measures must be complemented by the compilation of a *public registry of valuable art objects* (along with public databases of sellers, buyers, and prices) conducted by public agencies holding a mandate to custody the cultural patrimony and heritage of countries supported also by international cooperation. Finally, it is essential to shield in an intelligent way the art sector from main economic crises, the effects of austerity policies, global inequality and populist and xenophobic politics usually hostile to art and culture.