

An Economic History of Contemporary Art

Lecture 11

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- 1 The Art Market: A Brief History
- 2 The Economics Behind History of Art

Why Study the Art Market?

Main Characteristics

Contemporary art is:

- 1 Expensive
- 2 Incomprehensible and its value is highly subjective
- 3 Highly competitive market
- 4 Good investment
- 5 Growing fast

→ Understanding the art market can illustrate how economics shapes history in unexpected areas

Recent trends

Why so expensive?

Income growth:

- 1 newly created wealth in emerging markets: China, Russia and the Middle East
- 2 the world has never seen so many billionaires and wealthy people more generally

Result: fast growth of the luxuries market

- The European Fine Art Foundation (TEFAF), the total size of the global art market is about \$60 bln. (public auction data; art gallery and private dealer sales in 2011) → a six-fold increase in size over the last 20 years.

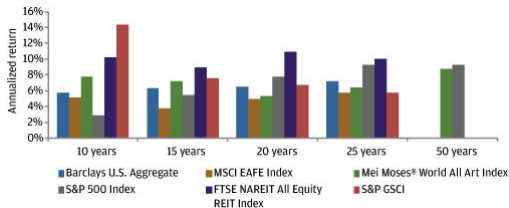
Discussion: Why? Think elasticities...

Art as Investment

Why a good investment?

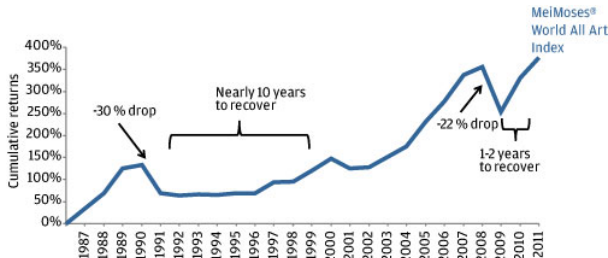
Sommer, 2012: Only recently art has been viewed through the lens of modern portfolio theory and considered a potential alternative investment as part of a portfolio of assets.

- 1 high growth
- 2 lower market volatility (standard deviation of annual returns) over the last 25 years than equity
- 3 performance on a risk adjusted basis (returns divided by standard deviation) over the last 50 years, the *Mei Moses World All Art Index* matched that of S&P500



Art as Investment

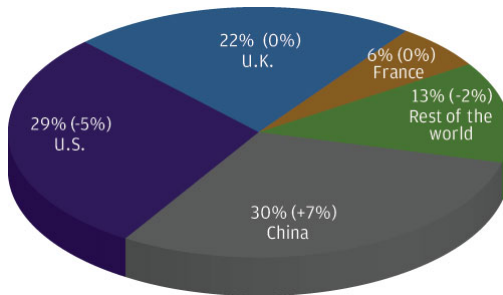
Landscape of the market



Geographic diversification has brought depth – mkt more resilient to global and local downturns. In the 1990s, the beginning of the Japanese “lost decade” affected significantly the market for a long period of time because the art mkt was heavily dependent on Japan.

Art as Investment

Current geography of the art market



Market share of total market in 2011 (growth of market segment in 2012).

Art as an Investment

Why a good diversification strategy?

Figure 3: A good diversifier? Art shows low or negative correlations to other asset classes over the last 25 years

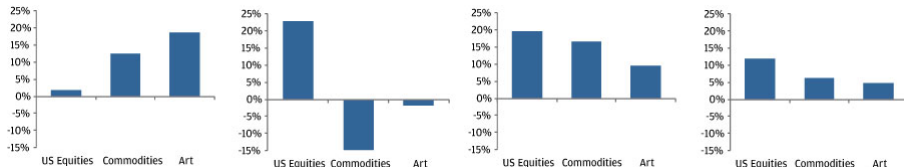
	S&P 500	MSCI EAFE	FTSE NAREIT All Equity REIT	Barclays Aggregate	S&P GSCI	Mei Moses World All Art
S&P 500	1.0000					
MSCI EAFE	0.7128	1.0000				
FTSE NAREIT All Equity REIT	0.4919	0.4440	1.0000			
Barclays Aggregate	0.2311	-0.1944	0.1287	1.0000		
S&P GSCI	0.1226	0.3558	0.1723	-0.2256	1.0000	
Mei Moses World All Art	0.0003	0.1524	-0.1719	-0.1788	0.1983	1.0000

What do the correlations mean in terms of diversification?

Art as an Investment

A good store of value?

How is art doing Vs. other investment options in periods of inflation?

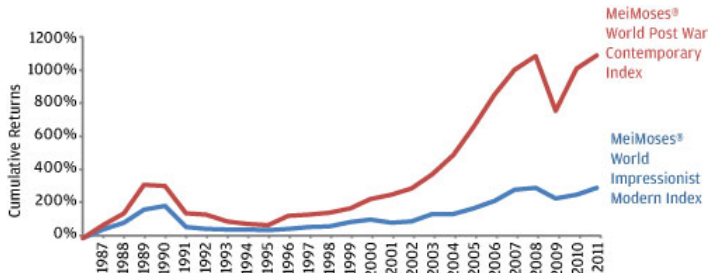


Infl. > 40-yr median | Infl. < 40-yr median | $I_{t+1} > I_t$ | $I_{t+1} < I_t$

Art as an Investment

"Sectors" within the art industry

Modern Vs. Contemporary "Sectors"



Contemporary by far surpassing modern.

The Economics behind the Market

Why the 20th c. contemporary is so different?

D. Galenson (UChicago): The art of the 20th century was different from all earlier art because of:

- the primacy of a specific *type of artistic creativity*
- a decisive advantage given to this type of creativity by a *new market environment*

The Economics behind the Market

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Types of artistic creativity:

- ① *Experimental* innovators work by trial and error, build skills over time. Their innovations appear gradually, late in their lives.
- ② *Conceptual* innovators express ideas or emotions in new ways. The most important conceptual innovations occur early in an artist's career.

For centuries, neither type of innovator dominated advanced art.

Conceptual innovators gained advantage due to a fundamental change in *the structure of the art market*

The Economics behind the Market

The structural change in the 19th c. art market

1874: The impressionist form their own exhibition because they are rejected by *The Salon* – the monopoly gallery. Follow-up:

- Prices of impressionist art increased
- More private galleries started selling young artists
- More galleries enter the market

The decisive role of Pablo Picasso. Early in his career, Picasso used his art to create a competitive market for his work.

The Economics behind the Market

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Picasso's commercial genius:

- 1 1901-1920: Picasso made portraits of nine dealers (and the wife of a tenth) → birth of a new regime in the history of art markets
- 2 So what?

The Economics behind the Market

The change in the art product after Picasso

The change in the art product:

- ➊ Before the end of the 19th c. artists' innovation was constrained by the need to satisfy powerful patrons and institutions.
- ➋ Picasso made the market competitive.
- ➌ The rise of a competitive market removed this constraint and gave artists greater freedom.
- ➍ Collectors soon recognised that the most innovative art would become the most valuable.
- ➎ The market rewarded innovation. Conceptual artists are the ones who can innovate more rapidly and more conspicuously.
- ➏ Conceptual artists gained advantage.

→ proliferation of art “sectors”, styles, products.

Conclusion: contemporary art is not incoherent. It is a result of a higher demand for conceptual – radical and conspicuous – innovation, and of a competitive art market.

Examples of experimental and conceptual artists

① Music:

- Irving Berlin, Cole Porter – experimental songwriters from the Golden Era, greatest achievements came in their 40s and 50s;
- Bob Dylan and The Beatles – a conceptual revolution in popular music.

② Photography:

- Alfred Stieglitz, Walker Evans: experimental artists, committed to realism
- Man Ray and Cindy Sherman: conceptual innovators: **constructed** images to express ideas

③ Architecture:

- Le Corbusier and Frank Gehry designed their greatest buildings after the age of 60, and Frank Lloyd Wright designed his after 70

Main points

- 1 Art is a good investment today
- 2 The asset mkt growth is driven by Emerging Asia + former USSR
- 3 Departure from the art traditions in the 20th c. was not incoherent
- 4 The change was brought by both supply and demand changes
- 5 Impressionists and Picasso changed demand by creating the supply of unseen ways of expressing ideas and emotions
- 6 As the market rewarded conceptual innovation, a proliferation of sectors and styles occurred.

Further reading

- ❶ *** Galenson, David (2009). Conceptual Revolutions in Twentieth-Century Art. Retrieved from <http://www.voxeu.org/index.php?q=node/3732> , VoxEU.org, 4 July.
- ❷ *** Sommer, K. (2012). The Art of Investing in Art. Retrieved from <http://www.jpmorgan.com>
- ❸ Galenson, D. (2009, Nov.). Innovators: Songwriters, NBER Working Paper No. 15511
- ❹ Galenson, D. (2009, Aug.). The Greatest Photographers of the Twentieth Century, NBER Working Paper No. 15278
- ❺ Galenson, D. (2008, Jul.). The Greatest Architects of the Twentieth Century: Goals, Methods, and Life Cycles, NBER Working Paper No. 14182
- ❻ Galenson, D. (2007, Feb.). Who Were the Greatest Women Artists of the Twentieth Century? A Quantitative Investigation, NBER Working Paper No. 12928
- ❼ Galenson, D. (2010, Apr.). Innovators: Filmmakers, NBER Working Paper No. 15930
- ❽ Galenson, D. (2010, Mar.). Late Bloomers in the Arts and Sciences: Answers and Questions, NBER Working Paper No. 15838