

ARTFACTS.NET

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Abstract

The author posits that the vast majority of people have little confidence about the “value” they should attribute to contemporary artworks. Many people are seduced into confusing worth with material production, with auction sales records, cult of celebrity, and endless gossip. People are unable to analyze the real activities of artists, their sales and exhibitions, from the unsubstantiated catchphrases of media speculation. This article aims to help clarify the basic mechanisms of the contemporary art market and to enhance understanding through the means of econometrics.

In order to understand the mechanisms of contemporary art production and proliferation, one has to understand the very basic foundations. The modern art market evolved in Europe and America in a process over 150 years and now more than ever threatens, through ignorance, to degenerate into a speculator’s playground. This development endangers the established market value build-up structure of artistic production, gallery exposition and collector activity as displayed below in Figure 1.

The subdivision of the market into a gallery sector and dealer sector guaranteed the delivery of artistic quality. Any artistic production had to undergo a ruthless extractive distillation on the primary market through repeating curator selection, public exhibition and intellectual discourse to become an object of value ready to be resold repetitively on the dealer market.

The invention of the camera (the Daguerreotype was patented in 1839) marked the point when it became obsolete for artists to express a thought or feeling solely through the means of a realistic image. With the rise of the ‘idea’ as the primary source of artistic production, the quality of an artwork cannot be determined just by following socially established aesthetic patterns. Just remember the commonly known fate of *Fountain* by Marcel Duchamp or *Fettecke* by Joseph Beuys. Both probably got destroyed unintentionally through the following of socially established aesthetic patterns. The same sort

of disaster will of course not happen that easily to the *Mona Lisa* by Leonardo da Vinci.

It is understood that the quality of a contemporary work of art cannot be measured in standardized terms such as material, durability, brushwork, etc. The quality of contemporary art is based on the designation of quality by reputable market participants. This system of designation works in a way similar to the system of quotations in the field of science. A scientist’s notability increases according to the number of quotations by other scientists citing his/her work in scientific publications. This phenomenon is called a self-referring system. The art market works via the same mechanisms. The self-referring system works efficiently in the art market as long as the quality and quantity of assignments continue to rise. In the event of market failure (i.e. no demand) the artist or the work of art is forced out of their level or, in the worst case scenario, is pushed out of the system altogether.

On the primary market, the gallery owner, in his/her function as the promoter of an artist’s career, strategically plans the future pricing of his/her artist’s artworks. He/she builds up a reputation and gradually increases the price level. Therefore, prices can only rise. If demand does not follow the strategic path, instead of lowering his/her prices, the gallery owner would rather drop the artist from the gallery program altogether. The artist would then probably find representation with a gallery of lower reputation and set up a new (i.e. lower) strategic pricing scheme. In this way, the art market functions with mechanisms similar to the sport world’s, in which a team is relegated to a lower league if certain athletic goals are not achieved.

On the secondary market, prices can only fall to a certain level. The lower price limit is mutually chosen by the tenderer and the appraiser. If the work of art does not receive a bid for the lower price limit, the work of art remains unsold (i.e. bought in). If a work is “bought in”, its value is under the accepted market price or zero and it cannot easily be resold. Works of art that are publicly offered on the secondary art market but remain unsold are labeled by art market participants as “burned”. (The same thing can happen to a work of art on the

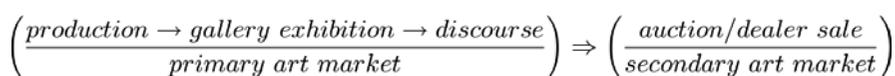
primary market if it is conspicuously shown again and again at trade fairs and sales exhibitions). This characteristic of market failure is inherent to the contemporary art market. If a collector pays the asking price for investment reasons he/she has to take the possibility of market failure into serious consideration.

As such, the art market is structured much like a football league. The world championship is at the top of this league but the selection process starts on a local, respectively national level. The world league in the art world meets where the highest prices are achieved. For the contemporary art market, this used to be Paris. Now it is New York. In the future the geographic location might be Hong Kong, China.

As in the sport world, each nation has its own “heroes”. The art lovers of a nation identify themselves with these “heroes”. Tradition and history have influenced each nation differently and therefore the aesthetic taste and the interpretation of visual signs are also different. In Asia, for example, it is a commonly accepted sign of quality if an artist copies or includes traditional aesthetic or technical styles in his/her artworks. For example, calligraphy still plays an important role in contemporary Asian art. In Western societies, on the other hand, the emphasis is more on implementing new styles and technologies while playing with traditional aesthetic signs.

Professionals tend to deny the system of applying national origin to a market career and try to refer only to quality – which can be described using the market terms *influence*, *fame* and *provenance*. However, in reality, the art market is mainly driven by middle class collectors. Over 90% of the turnover in galleries and auction houses derives from this clientele. Only societies with a large middle class, access to education and wealth spread across a relatively broad section of society can establish a national market for contemporary art. This is why most countries do not have a contemporary art market and why the contemporary art market is still mainly driven by Western societies. Societies that want to or have achieved the aforementioned state of wealth are ‘proud’ of their art market and put great emphasis on the term ‘nation’ to describe a certain quality of artistic production (e.g. Young British Art, Russian Art, Chinese Art). Art shows (i.e. biennales, triennials, etc.), art fairs and auctions are used at different levels to affirm the position of local

Fig. 1. Basic structure of the art market. (©Artfacts.net)



“heroes” in the system. The art world meets at these events and recognizes the chosen ones as candidates for a higher level of performance.

To come back to the original scenario, the art market is divided up into a professional world with its own terms of quality assignment and the world of the average art consumer, who is often left feeling confused. The way in which the professional world evaluates the quality of a work of art remains a mystery to most potential consumers. This incomprehension and the lack of conviction of a large section of society in their own taste explain why the art market continues to have such a unique character.

This basically means that the professionals have designed a kind of private code that art consumers cannot decrypt. That makes the consumers feel uncertain. The other thing is that often people do not trust their own taste. They look at what others do and copy that.

One possible option to establish transparency into the aforementioned opaque operating system of the art world is to make the reputation-building events in an artist's career measurable. The first obvious way is to use the price as a measurable event (e.g. Hislop's Art Sales Index, 1968). In the 1970s the German art critic Willi Bongard developed a system, known as the *Kunstkompass*, for ranking artists based on indicators of fame (i.e. museum exhibitions, art magazine articles). Bongard calculated the success of an artist from year to year and compared it to gallery prices, thus determining the artist's investment potential.

The *Kunstkompass* uses only a few hundred sources to determine an artist's success. To overcome these limitations we developed the Artfacts.Net Artist Ranking in 2003 [1]. The system generates points for exhibitions, collects these points and adds them to the artist's account. The artist with the most accumulated points enters at the top of the list, then factoring continues down from there. The significance behind the Artfacts.Net artist ranking is that it highlights the importance of the curator's choices on an artist's career. It is Artfacts.Net's estimation that curators determine a sound and sustainable career for the artist. As a rule of thumb: the nearer the institution is to the market the lesser the number of points the institution gives, and the closer an institution is to the geographical center of the art world the higher the number of points later handed over to the artist. In this view Artfacts.Net takes a strong opposition to the market-driven view of most of the art indexes and art coverage either in print or on-line. Thus, Artfacts.Net wants to emphasize the art world from the point of view of the curator, not the perspective of the auctioneer or dealer. A non-profit institution has ideally no commercial interest, which is in opposition to an auction house, which is ideally purely market driven.

The fundamental aspect of the Artist Ranking is the so-called economy of attention: Georg Franck [2] states that attention (fame) in the cultural world is an economy that works with the same mechanisms as capitalism: all economic behavior is based on property, lending money and interest for the money given

away. For Franck the museum director or the gallery owner acts as an investor. They lend their property (exhibition space and their fame) to an artist from whom they expect a return on their investment (interest) in the form of more attention (reputation, fame for their institution etc). So the artist is seen in the same way that an entrepreneur is seen by an investor – ‘the horse has to pull’. The investor puts his money into several companies which he believes will gain success. This is always a mixed bag where a few succeed, paying off the misinvestment in the others.

Artfacts.Net again pushed these rather isolated attempts to ‘econometricize’ the art markets into a database-enhanced rating system to support the analytics of a vast number of artists. One of the main goals of an econometric analysis is the variety of possible applications that makes it a powerful knowledge tool – as shown for example in the double helix-like graph below. The graph shows the artist's rank of Neo Rauch – a successful German painter from the Leipzig School Movement – overlapped by the auction sales per year. This chart shows exemplarily the connection between primary and secondary market. The sales seem to constantly follow the artist's exhibition success.

References and Notes

* This paper was presented as a keynote talk at Arts, Humanities, and Complex Networks – 2nd Leonardo satellite symposium at NetSci2011. See <<http://artshumanities.netsci2011.net>>.

1. Artfacts.net (1999), <<http://www.artfacts.net/>>, accessed 27 September 2011.

2. Georg Frank, *Ökonomie der Aufmerksamkeit. Ein Entwurf* (Munich, Germany: Carl Hanser, 1998).

Fig. 2. Artfacts profile for the artist Neo Rauch. (© Artfacts.net)

