

by BEN DAVIS

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On Art and Investment

Share

Money continues to pour into art, and with it, stories multiply about art's manipulation by callow titans of finance. Speaking of the recent decade, one pundit said not so long ago: "The conversation has turned from 'Is art an asset class?' to 'Art is an asset class,' and then to 'How do we take advantage of art as an asset class?'"(1) Art funds, for example, promise to allow the non-expert to benefit from the soaring market without having to actually know anything about the subject, while tax-exempt "freeports"(2) swell with works purchased but never displayed.

The specter of "art as investment" provokes the excitement that comes from being able to pick out a clear villain: what could be a better example of the evils of capitalism for art than the businessmen subordinating aesthetic virtue to the icy logic of profit? In a recent essay, sharp-eyed artist and art theorist Melanie Gilligan emphasizes that the age-old commodification of art has taken "a new turn" because works have become terminally "financialized." She encourages us to see the "connections between capital's looting of the forces of production and art."(3)

This kind of warning is surely healthy. But it is also important to keep it all in perspective, and my argument here is that the fixation on the speculative side of the art market tends to overstate the novelty of said speculation and underplay its contradictions. A good story always helps make sense of things, but it is important to make sure it is the right story. And to identify guiding precedents, it is worth rewinding the tape, back to the 1980s.

Back to the Future

Critic Robert Hughes's classic essay "On Art and Money" was written in 1984, exactly three decades ago, amid the chest-beating market rhetoric of the Reagan era. Adjusting for slightly different aesthetic passions, it reads as if it could have been penned yesterday—except that Hughes fills in some important historical perspective:

The art market we have today did not pop up overnight [...] The big project of the art market over the last 25 years has been to convince everyone that works of art, though they don't bear interest, offer such dramatic and consistent capital gains along with the intangible pleasures of ownership—what Berenson might have called "untactile values"—that they are worth investing large sums of money in. This creation of confidence, I sometimes think, is the cultural artifact of the last half of the twentieth century, far more striking than any given painting or sculpture.(4)

Hughes went on to predict that it would all crash—as it indeed did—at the end of the 1980s, taking with it the mystique of art as investment at least temporarily. Today, as each new auction season brings tales of speculative shenanigans, it's worth remembering the extent to which we've been here before: the intermingling of art and finance was a huge obsession of the media in the '80s, even *after* the stock market crash of 1987.(5) The aura was overpowering enough to leave its mark in the era's pop culture: "Money itself isn't lost or made, it's simply transferred from one perception to another. Like magic," the character Gordon Gekko lectures in Oliver Stone's 1987 film *Wall Street*. "That painting cost \$60,000 ten years ago. I could sell it today for \$600,000."

That amount seems quaint now, and it is possible that the more recent, spectacular resurgence of the art market from its 1990s gloom has changed the game in some way, and constitutes "a new turn." But the process of conspicuous "financialization"—if by this we mean, following Gilligan, that "when something succeeds it does so in symbiosis with the market" (rather than based on its aesthetic merit, presumably)—is at least a half-century old. The sense of novelty that accompanies each new wave of speculation is something to question,(6) since it may also be simply a side effect of the market's own exuberance: "This time it's different" is the self-justification that accompanies speculative bubbles of all kinds—and "Art Is the New Asset Class" was number three on Marc Spiegler's 2007 list of "Five Theories on Why the Art Market Can't Crash."(7)

Short Circuit



1 View of Christie's sale of Francis Bacon, *Three Studies of Lucian Freud*, 1969 at auction on November 12, 2013 for \$142.4 million.



2 View of Frieze New York, 2012.



3 View of Frieze New York Sculpture Park with Paul McCarthy, *Balloon Dog*, 2013.



4 View of The Armory Show, 2014.

Which brings us to the second, more important irony at play in the contemporary critical obsession with “financialization.” Compared to the 1980s, speculation is occurring on an undeniably new scale, and has much more sophisticated instruments at its disposal. But the flip side of this intensification is that there has also been a new quantity of work by mainstream economists looking seriously at the opportunities of art as an asset. And if there is a key lesson that has come out of this research, it is that art is *not* a good investment.

The recent past has certainly seen a rise in various art indexes that allow the budding art investor to attempt to read the state of the market. These, however, are almost comically warped, more like a Francis Picabia portrait than the S&P 500. Since there is no transparent data about what happens in the art market, art indexes rely on publicly held sales at auction houses like Christie’s and Sotheby’s. Within those sales, they can only measure the appreciation in value of artworks that have sold before (the “repeat-sales” method).(8) The data is, therefore, rigged to be positive from the point of view of art as investment: it contains only works already pre-selected as sellable by an auction house; of these, it only measures the works that have a proven track record, and which are already likely to appeal to buyers concerned with investing.

And yet despite this Polyanna-ish bias, the majority of studies done using this method, or any other, conclude that art investment consistently returns less than what investors would have netted if they put the same money into other investments. The winners are too few, and the competition for the best stuff too great for art to offer a truly attractive ratio of risk to return.(9) “In short, buy paintings if you like looking at them,” a team of economists advised recently, summarizing the latest research on the subject. “You can hope that your children will sell one or more of them later for a gain—but paintings are primarily aesthetic investments, not financial ones.”(10)

As for the art funds, the only one in history with real data on its performance is the British Rail Pension Fund, which began way back in the 1970s not so much as a sign of art’s great strength, but as a Hail Mary pass in the face of the terrible state of other investments during the disco decade. One account notes that had the kinds of sophisticated financial instruments that exist today been available to the Fund’s stewards, the experiment might likely have made no sense.(11) And what about all those new art funds that we hear so much about? They had a terrible year in 2013, many being extinguished in ignominy.(12)

The drawbacks of art as investment are so multifarious and obvious that it almost seems churlish to recite them. Only the media’s monomaniacal focus on record-breaking totals at the top of the auctions conceals this fact. Corporate equities pay an annual dividend, whereas expensive art is a money pit: “holding costs”—insurance, storage, restoration, and so on—run up to 5 percent of the net value per year.(13) Stocks are relatively easy to transform back into money, whereas art is difficult to sell in the best of times.(14) and auction houses charge huge fees to do so. The jury is still out about whether segments of the art market are “uncorrelated” to other markets in any meaningful way, making it a potential hedge(15)—but the data shows that art is at least susceptible to being disastrously distorted by bubbles in other parts of the economy. Going back to the 1980s again, it is clear that the greater portion of the entire *global* art market danced to the tune set by the run-away ascent of Japanese real estate prices, which ultimately collapsed and dragged art down with it.(16)

The Goonies

For Gilligan, the notion that art has been “financialized” is explicitly an extension of the theory that finance capital has broken through to some new and sinister independence, and that this is the key characteristic of our economic present.(17) However, after reviewing the stats on financial versus non-financial portions of the economy, the *Left Business Observer*’s Doug Henwood’s verdict on “financialization” is that it is overstated: “The conclusion to draw from that blizzard of numbers is that finance gets most of its money from corporations and workers engaged in the real world of production... The financial and the real are intimately connected to each other.”(18) In a parallel way, speculation is probably more of a secondary phenomenon than a primary explanation of the art market’s current, bloated state. At the very least it needs to be understood in a broader context.

The bankers themselves know this. A recent Barclays survey finds that the very rich still collect what it charmingly calls “treasure” for old-fashioned reasons: status and amusement. “Relatively few wealthy individuals own treasure solely for its financial characteristics.”(19) It may be true that some hedge-fund kings are building up “positions” in certain artists, seeking to apply the techniques of their day jobs to their hobby(20)—but we have no data on how often their bets pay off. For the vast majority of art-buyers in Basel, London, New York, or Miami Beach, the art market remains much as it was—a way to think about themselves



5 Vincent van Gogh, *Portrait of Dr. Gachet*, 1890. Oil on canvas, 67 x 56 cm. In 1990, a Japanese investor bought this painting at auction for \$82.5 million, or \$147 million in inflation-adjusted terms, making it the most expensive painting ever sold.



6 View of The Armory Show, 2014.

1 View of Christie’s sale of Francis Bacon, *Three Studies of Lucian Freud*, 1969 at auction on November 12, 2013 for \$142.4 million. Oil on canvas, three parts, each 198 x 147.5 cm. © Christie’s images 2014.

2 View of Frieze New York, 2012. Image courtesy of Frieze. Photo by Graham Carlow.

3 View of Frieze New York Sculpture Park with Paul McCarthy, *Balloon Dog*, 2013. Image courtesy of Frieze. Photo by Naho Kubota.

4 View of The Armory Show, 2014. Image courtesy of The Armory Show. Photo by Roberto Chamorro.

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6 View of The Armory Show, 2014. Image courtesy of The Armory Show. Photo by Roberto Chamorro.

Paris Roundup

VARIOUS LOCATIONS, Paris

Cassils’s “Monumental”

RONALD FELDMAN GALLERY, New York

Hildegard Duane’s “Western Woman”

KÜNSTLERHAUS STUTTGART, Stuttgart

Ruth Asawa

DAVID ZWIRNER, New York

as cool and *au courant*.⁽²¹⁾ It's just that the whole spectacle of conspicuous aesthetic consumption is so frivolous, you can't blame them if sometimes they also like to be told that they are not just splurging, but *investing*.

Record inequality means record art prices, because the small number of people who can afford to spend massive sums on "useless" things simply have more money to do so. When Christie's Brett Gorvy, after another round of stories about predatory speculators, emphasizes that the majority of bidders are "collectors who are here for the long term," he may well be telling the truth—but this doesn't make the obscene prices paid any less obscene.⁽²²⁾ This fact gets lost when we focus solely on speculation. Of course, because the astronomically rich are astronomically richer in 2014 than they were in 1984, when Hughes penned "On Art and Money," it is very likely that an increased number of fast-talkers are looking to construct schemes that take advantage of their appetites and insecurities. But these are *schemes*; the new breed of so-called "super-flippers" buying up work by young artists and trying to pass them off for inflated prices still depends on having a pool of "greater fools" to take them off their hands. They are, in essence, betting that the art collecting class is stupid enough to believe their hype (a good reason not to repeat this hype), and—more importantly—that the disposable wealth of this class is going to continue to grow.

Because the opaque and chaotic art market allows all manner of cons to multiply, contemporary commentators rightly call for government regulation of the field.⁽²³⁾ But imagine for a moment a law that made all private sales information public, so that there was a completely transparent record of the market. The proponents of art as investment are well aware that a lack of transparent data is a weakness, so wouldn't this be good for them? No. Why? Because what such a record would likely show is that the same thing is true of art today that has always been true: art history's losers vastly outnumber its winners, and the latter are almost impossible to predict.

Ultimately, the contemporary art market flourishes not because it has been fully subordinated to the ideal of art as investment, but because it operates at a slight remove from it. It is familiar enough to be associated with the glamour of money, but different enough to be pleasantly distracting and mysterious. Do the big players tell themselves, and anyone else who will listen, about the fantastic opportunities to win big? Sure. But for those who can afford to lose, the same is true of blackjack, or horseracing, or any other kind of high-stakes gambling. And critics should probably be at least as angry about how such people got such vast amounts of money to throw around in the first place as they are about the stories they tell themselves to justify it.

(1) Michael Plummer, quoted in Shane Ferro, "Welcome to the SWAG Economy: Art Investment Takes Off as the Superrich Despair of Stocks," *Artinfo.com* (April 1, 2012), <http://origin-www.artinfo.com/node/754984>.

(2) "Über-warehouses for the ultra-rich," *The Economist* (November 23, 2013) <http://www.economist.com/news/briefing/21590353-ever-more-wealth-being-parked-fancy-storage-facilities-some-customers-they-are>.

(3) Melanie Gilligan, "Derivative Days: Notes on Art, Finance and the Un-Productive Forces," in *It's the Political Economy, Stupid: The Global Financial Crisis in Art and Theory*, eds. Gregory Sholette and Oliver Ressler (London: Pluto Press, 2013), 73–74, 77.

(4) Robert Hughes, "On Art and Money," *The New York Review of Books* (December 6, 1984), 20–27; 23–24.

(5) "[T]he *Business Periodical Index* for 1984–85 had twenty articles on art, five of them specifically about art as investment. The 1986 *Index* showed a 30 percent jump in articles on art in every kind of business magazine, including the *American Economic Review*. By 1987, the number had increased to forty, under various 'Art' subheadings, including thirteen articles just on art as investment. These included 'Is the Art Market About to Peak?', several analyses of why the stock market crash (October 1987) didn't affect the art market, and even an investor's 'Post-Crash Portfolio' in *Contemporanea*, an art magazine, which encouraged investors to reach for certified bargains in art. From June 1988 to July 1989 there were fifty articles on art as investment, including several a week in the *Wall Street Journal*, many of them with detailed information on auction prices." Cynthia Navaretta, "The Fever Peaks," *Women Artists News*, vol. 14, no. 4 (Winter 1989/90); reprinted in Judy Seigel, ed., *Mutiny and the Mainstream: Talk That Changed Art, 1975–1990* (New York: Midmarch Arts Press, 1992), 296–98, reprinted in *In Terms Of* (November 21, 2013), <http://www.in-terms-of.com/the-fever-peaks/>.

(6) Lest we forget, the novelty of the sums tossed around at auction can be overstated: That \$142 million paid last year for Francis Bacon's *Three Studies of Lucian Freud* (1969) does not yet quite top that paid by a Japanese magnate for Vincent van Gogh's *Portrait of Dr Gachet* (1890) in 1990, at the peak of a bubble, which was \$82.5 million, or \$147 million in inflation-adjusted terms.

- (7) Marc Spiegler, "Five Theories on Why the Art Market Can't Crash," *New York Magazine* (April 3, 2006), <http://nymag.com/arts/art/features/16542/>.
- (8) There are two rival kinds of indexes: "hedonic" and "hybrid" models. Both have their own difficulties. For a good summary of the various methods and the controversies around them, see Roman Kraeussl, "Art Price Indexes," in *Fine Art and High Finance: Expert Advice on the Economics of Ownership*, ed. Clare McAndrew (London: Bloomberg Press, 2010), 65–88.
- (9) "The general finding, using different datasets, has been that—on average—art is not a very good investment. Mei and Moses (2002) is an important dissenting paper." Adie L. Melnick and Steven E. Plaut, "Art as a Component in Investment Portfolios," *Journal of European Financial Management Association* (2008) [online] http://www.efmaefm.org/oEFMAMEETINGS/EFMA ANNUAL MEETINGS/2009-milan/EFMA2009_0422_fullpaper.pdf.
- (10) Arthur Korteweg, Roman Kräussl, and Patrick Verwijmeren, "Research: Is Art a Good Investment?" *Stanford Graduate School of Business: News* (October 21, 2013), <http://www.gsb.stanford.edu/news/headlines/research-is-art-good-investment>.
- (11) See Jeremy Eckstein, "Art Funds as Asset Class," in *Fine Art and High Finance* (2010), 140–155.
- (12) See Melanie Ferlis, "Art Fund Industry Struggles to Emerge from the Gloom," *The Art Newspaper*, no. 250 (October 3, 2013), <http://www.theartnewspaper.com/articles/Art-fund-industry-struggles-to-emerge-from-the-gloom/30551>.
- (13) McAndrew, "An Introduction to Art and Finance," in *Fine Art and High Finance*, 23.
- (14) Analyses of the risk of art investment have customarily failed to account for the potential for a work to be "bought in" at auction. Clare McAndrew writes that once one does so, "implied loan-to-value ratios are twice as high as when buy-ins are not accounted for." Mc Andrew, "Art Risk," in *Fine Art and High Finance*, 105.
- (15) See Andrew C. Worthington and Helen Higgs, "Art as an Investment: Risk, Return and Comovements in Major Painting Markets," *School of Economics and Finance Discussion Papers and Working Papers Series*, no. 93 (June 20, 2001) (Brisbane: School of Economics and Finance, Queensland University of Technology), http://eprints.qut.edu.au/559/1/worthington_93.pdf.
- (16) See Takato Hiraki, Akitoshi Ito, Darius Alexander Spieth, and Naoya Takezawa, "How Did Japanese Investments Influence International Art Prices?," *Yale ICF Working Paper No. 03-09; EFA 2005 Moscow Meetings Paper*, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=404800.
- (17) Since Gilligan draws on Fredric Jameson's account of finance capital and architecture, Gail Day's convincing critique of Jameson's over-estimation of finance capital is probably germane. See Gail Day, *Dialectical Passions: Negation in Postwar Art Theory* (New York: Columbia University Press, 2010), 182–229.
- (18) Doug Henwood, "Situating Finance," *Left Business Observer* (September 24, 2013), <http://lbo-news.com/2013/09/24/situating-finance/>.
- (19) "Just 18% of the treasures that survey respondents own are held purely as an investment and only 21% are believed by their owners to provide financial security if conventional investments fail. Investors that do seek financial returns or insurance from their treasure typically favour commodity-like items, such as precious metals, coins and jewelry. They derive relatively low enjoyment from what they own and are more likely to sell their treasure than those who are influenced by other motives." Barclays Wealth Insights, "Profit or Pleasure? Exploring the Motivations Behind Treasure Trends," *Wealth Insights*, vol. 15 (June 11, 2012), https://wealth.barclays.com/en_gb/home/research/research-centre/wealth-insights/volume-15.html.
- (20) The same report that advances hedge fund managers' speculative plays in the market also contains this anecdote, clearly not an example of speculation: "[Jose] Mugarbi said a hedge-fund manager recently asked him to track down a mural that Basquiat painted inside a New York nightclub called the Palladium. 'The guy said, 'I'm willing to pay \$100 million, \$200 million for it,' he said. 'He wants the art he loved and remembered seeing when he was young, and he can afford to pay anything to get it.'" See Kelly Crow, Sara Germano, and David Benoit, "New Masters of the Art Universe," *The Wall Street Journal*, January 23, 2014, <http://online.wsj.com/news/articles/SB10001424052702303448204579337154245172202>.
- (21) Compare the scene of the fairs with this quote from Hughes's "On Art and Money": "They buy large quantities of art because they are infatuated with the art world as a system. For them it is glamorous and slightly alien, full of people—above all, young artists—who can be obsequious one moment and mysterious the next. It is, in short, 'Art-World,' the cultural equivalent to Disneyworld, full of rides and haunted houses and historical fictions; and they are tourists in it. Because they have been stuffed with propaganda about the increasingly vital role, the quiet power, of the collector, they mistake the events in this world for the real stuff of art history, not noticing the extent to which it is a public relations project—an imaginary garden with a few real toads in it. They are rich. Sometimes, the degree of their success and wealth is puzzling to them, and there is something a little expiatory about the way in which they buy. Most of the time they buy what

other people buy." Hughes, *ibid.*, 26.

(22) Scott Reyburn, "For the Love of Art, and Money," *The New York Times*, February 7, 2014, http://www.nytimes.com/2014/02/17/arts/international/for-the-love-of-art-and-money.html?_r=0.

(23) "The big secret in the art world is that today nearly everyone agrees that art is a dirty business, though few speak out for fear of banishment from the ultimate insiders' club. It's high time the art market was cleaned up: by the government, by self-regulation, but above all by a resolve among club members to straighten out a trade that, when measured against any other legal industry, is downright criminal." Christian Viveros-Fauné, "Art's Dirty, Big Secret," *The Village Voice* (January 1, 2014), <http://www.villagevoice.com/2014-01-01/art/art-s-dirty-big-secret/>.

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