CHAPTER 10

Art and Finance Capital

€46.1 billion (or $62.8 billion) was the size of the global art market in 2011, according to a report by The European Fine Art Foundation published in March 2012. This represents a revival of the art market, which after reaching $60 billion in 2007 dropped by 20 percent in 2008 after the credit crunch and lost another 30 percent in 2009. The market is split equally between auction houses and gallery sales, with Sotheby’s and Christie’s handling around 35 percent of global auction trade between them, with the most dramatic growth in business taking place in China (up 177 percent in 2010, when China finally overtook the United States and the UK ‘as the world’s largest auction marketplace for Fine Art’; 1 and up another 65 percent in 2011 to command as much as 39 percent of the global art market). There were 36.8 million transactions within the art market in 2011, with nearly 70 percent of global trade made up of ‘contemporary and modern art’ (art made since 1875) by more than 403,000 dealers, galleries and auction houses employing 2.4 million people. The contemporary and modern markets grew from €92 million to €915 million between 2002 and 2008. 2 Dealers make around a third of their income from sales at art fairs, with 41 percent passing through the gallery (the rest, presumably, are made online 3 or through personal communication). Although art is an enormous global market and the bulk of sales consists of ‘contemporary and modern art’, these are nonetheless largely sales on the secondary market of artists such as ‘Picasso, Gustav Klimt, Egon Schiele, Claude Monet, Maurice de Vlaminck and Salvador Dali’, 4 sold from collectors to collectors. The primary market, dealing with living artists selling works to collectors, is a very small percentage of total sales, 5 in which ‘the price points are often lower than in the secondary market’. 6 Gallerists have started to deal more vigorously

1 Ehrmann 2011, p. 6.
2 McAndrew 2010a, p. 17.
3 See Ehrmann 2012, p. 15. He says: ‘The sale of artworks online has become an irreversible aspect of the modern art market and the sums involved have already reached into 7 figures’.
4 Ehrmann 2012, p. 10.
5 See McAndrew 2010b, p. 9. The art market, she says, ‘operates on a two-tier system made up of primary and secondary markets, with the latter dominating the trade in terms of value and volume’.
6 McAndrew 2010b, p. 9.
in the art market through an increasing number of art fairs. In 1970 ‘there were just three main events (Cologne, Basel and the Brussels based Art Actuel)’ but today there are 189 international art fairs. The main reason for this, according to Georgina Adam, is ‘the need to offer a buy-it-or-you’ll-lose-it situation to challenge the auction houses’.7

The art market, effectively, is a massive second hand trading network of collectors and dealers, with little or no place for the producers of art. Their works are exchanged between collectors in a world apart, hence artworks in the secondary market are ‘irreproducible’ in Ricardo’s terms regardless of whether the artist is dead or not. The absence of competition among producers and the impossibility of increasing supply to meet demand is the basis for the astronomical prices of a tiny minority of highly sought after artworks. Neoclassical economics claims to be able to treat the sale of artworks as a standard transaction with prices determined entirely by demand and the subjective perception of utility by wealthy purchasers. However, no demand curve can be drawn for a unique object and no incremental units of such an article can be used to gauge a consumer’s marginal utility. In fact, the prices of artworks appear to be beyond mainstream economics. While mainstream economists are the experts on markets and prices, the allocation of resources and the calculus of costs and benefits, they cannot provide any explanation of the mechanisms by which prices of artworks are affected. Baumol argued, for instance, that the value of artworks, especially of noted artists who are dead, ‘float more or less aimlessly’.8 This is not an economic explanation of art prices, but a confession of the absence of one. In order to make progress in the economic understanding of art prices we need to extend our analysis beyond art and productive capital and merchant capital. The secondary market for art is one of the theatres in which merchant capital operates, but this is a sphere dominated by finance capital.

Finance capital differs from productive capital and merchant capital insofar as it appears as a commodity.9 Moreover, finance capital in the form of loans differs from commodity capital with regard to use value:

In the case of the other commodities the use value is ultimately consumed. Their substance disappears, and with it their value. In contrast,

7 Adam 2012 (unpaginated).
8 Baumol 1986, p. 10.
9 See Marx 1959, p. 341. ‘A distinction should be made here. We have seen (Book 11, Chap. 1), and recall briefly at this point, that in the process of circulation capital serves as commodity-capital and money-capital. But in neither form does capital become a commodity as capital’.