The Process of Origination, Production and Distribution of Paintings for Profit: A Review of the Literature

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Abstract
This study examines the full process of how paintings originate, and how they proceed from creation to the final stage of their sale. In it, we shall see that there are a few parties, which are involved from beginning to end. We observe in this that the artist is not the supreme being, but a cog in the wheels of the creation and distribution of art.

Keywords: origination, paintings, art, dealers, critics, distributors, galleries, patrons, collectors auction houses

1. Introduction
Art as an investment depends not only on the means which are required to produce the physical art, but also the people who are required in order to take the art from the artist and transform it from a viewing object into a financial object; one that can be bought and sold. Many details factor into this including obtaining the price of the artwork, determining the vehicle through which the art can be sold, along with the type of person who will be involved in this transaction.

All of the people who are involved in the production, pricing, and buying and selling of art make up the art world. The modern international art market began in the late 19th century. It has since become predominately located within New York, London, LA, Tokyo, Zurich, Milan, and Düsseldorf. It is a “social production (and a) collective practice that depends on complex interactions between artists and a range of ‘art world’ actors-or art makers- such as patrons, dealers, critics, gallery owners, and collectors.” It is these people who have taken the authority of determining the history of art.

Art promotes the economic welfare of cities, bolstering jobs and money as well as attracting tourists and creating an image of the city. The first time artists lived in a cluster in the same location was in Paris in Montmartre. Then they moved to Montparnasse. This led to a revolutionary turn in art because the artists were able to live together and learn from each other and exchange ideas. New York is a prime example of the art world influencing the economy. Such neighborhoods such as SoHo and Tribeca have become centers for the world of art. Artists are “particularly effective in beginning to revitalize areas previously unattractive to developers.” (While, 255) In the 90s the inexpensive and yet to be developed areas of SoHo and Tribeca were available allowing for artists to come to develop and enrich the areas as well as making them attractive to developers and prospective residents. These neighborhoods “formed ‘a loose community...personal interactions were of great importance, for they gave rise to an aesthetic climate in which innovation and extreme positions were accepted and encouraged” (Crane, 333). It is important to realize that the importance of the establishment of communities by artists can not only result from the production of art, but this art must be sold and traded in order to bring in the proper funds into the community. “Since the 1960s art and culture have become increasingly linked to the economic fortunes of cities in advanced capitalist societies” (While, 255).
2. The Increased Influence of Money on Paintings

A very important and prevalent question within the art world today has been stated by Donald Kuspit when he says that “Art has never been independent of money, but now it has become a dependency of money” (Kuspit, 1). When artists began to produce art with the intention of selling it, they certainly needed to support themselves financially and so sold their pieces for money. However, today the art market is viewed by many as a purpose through which they can make money rather than as a means to accumulate art that moves them on a deep emotional and spiritual level. “The commercial value of art has usurped its spiritual value…art’s esthetic, cognitive, emotional and moral value…has been subsumed by the value of money” (Kuspit, 1). Art has become another utility through which capitalism can grow and develop so much so that “money no longer serves and supports art, art serves and supports money” (Kuspit, 2).

The trend toward money becoming the mover and art the follower is also supported by supply and demand. “The value setting has become increasingly linked to market forces and media controversy has come to play a growing role in the international art world” (While, 252). The key to making art an appealing investment is that dealers have to “rely on their inability to bet on an unknown work, with the objective being to give it a public existence and impose it on the market” (While, 255). As an investment, art can be especially hard to evaluate because all viewers have different aesthetic preferences. “Taste adds an additional, unquantifiable element of risk to art investment even aftermarket analysis has been undertaken” (Campbell, 7).

That the art world encompasses a “network of critics, dealers and galleries” shows the extent to which the market has grown. The artists themselves are the seed level from which art as an investment can grow and flourish. The social interactions and importance of artists living together in communities is an integral part of the production of art as it allows the artists to work together, influencing each other to create their pieces. Within these neighborhoods, it is essential that galleries be opened to host the art created within the same neighborhood. The media then becomes important in order to bolster conversation and promote attention towards these works of art. One of the biggest proponents and influences on the art market and art as an investment are the collectors themselves. Generally, they come from families who have millions and millions of dollars, and who can buy locally and internationally. They use scouts and dealers, but ultimately make their own decisions about what they want to include in their exhibits. They hire curators to handle the galleries that they build up, and who end up “exerting a significant influence on the art market” (While, 258). It is these people who “blur the distinction between patron, collector and dealer/spectator” (While, 258).

It is not only the dealers and collectors who have become so centrally focused around the financial aspects of the art world. It is now the case that even the artists have begun to place a much heavier emphasis on the money at which their paintings will be valued. “Rather than being a proponent of the avant grade, the successful contemporary artist can be characterized as an entrepreneur running a business” (Crane, 343). Damien Hirst, a very successful and well-respected contemporary artist has proclaimed that he is “not concerned with being original but with establishing brand names that represent a ‘trademark’ style” (Crane, 343).

Because the price of art has become such an intrinsic value to the entire art market, it has become the buyers and sellers of art, rather than the artists, who dictate the popularity and the path which art takes. Art that is bought and sold is the only art, which society is interested in embracing and viewing. “The players have become more important than the artists whose works they play with because they have the money and the artists don’t” (Kuspit, 4). Instead of the value of a painting being based on how they connect with the viewer and move them on an emotional level, art collectors look to buy the pieces that are worth the most money, or whose prices are speculated to rise even more in the future. Kuspit explains, “The price paid for a work of art becomes its absolute and authoritative value, even if the value the price implies is not particularly clear.” (Kuspit, 4).

As a financial asset, art is a great alternative to stocks and bonds. When the financial market is not flourishing, art becomes a great tool through which an investor can diversify their portfolio. Art is a tool which money can reside in while accumulating more value. Simultaneously, it offers the owner an aesthetic benefit of purchasing something from which they can hope to make profit, but they can also admire and use to decorate their home or office. “Art as a direct investment presents a risky investment opportunity, although purchasing according to personal tastes results in an aesthetic benefit which can potentially outweigh any financial benefit or loss incurred” (Campbell, 7).

Just like any other financial asset, the prices of art goes up and down and has periods of tremendous growth followed by periods of tremendous losses. There is never any certain way of predicting what the movement of the prices of a piece of art will be. The investor must be willing to accept that there is the same level of risk and return as there is with any other type of commodity. Just as the index returns predicted by the S&P cannot be
predicted with certainty, investments in any type of art cannot be as well. One more reliable way of predicting the trend in the art market is based off of the financial equity market. As equity rises buying of art tends to rise as people have more money than they feel comfortable spending, and so too when the equity market falls, so does the amount of artwork that is bought and sold.

The main art collectors of the past were doctors, lawyers, and thinkers. People who developed relationships with the art that they wished to buy along with dealers and galleries, which were helping to sell it. They took their time in the decision process, evaluating which pieces they wanted to buy and buying them using their heart and soul. Nowadays, the collectors have become businessmen looking to use art as a means by which they can make a profit and don’t spend much time determining whether they connect with the piece on a deep soul level, but rather for a good price will quickly buy or sell the artwork. They often will buy a piece of artwork without ever having seen it in person, and rather rely on a digital photo of the piece which they view on the computer. This “suggests that the value of an art work now depends on the discourse surrounding the work in the media rather than on its visual characteristics and quality” (Crane, 349).

The key difference “between art and other consumption goods is that the quality of an artwork cannot be objectively determined. Instead, the value of art is socially constructed” (Schonfeld & Reinstaller, 2). It is the artists, buyers, sellers, owners, historians, gallery owners and evaluators that determine the price and value of the artwork. It is not based on financial models and graphs the way most of the commodities, which are traded are. It is based on the society and culture within which the piece of art is being made. It is “by far more dependant on cultural norms and social acceptance than the perceived needs of the consumers.” (Schonfeld & Reinstaller, 2).

Despite the validity in the aforementioned paragraph, a new key group of art collectors is beginning to emerge from within the financial sector. Not only is this socioeconomic group financially successful but they also work and specialize in financial evaluations. They have begun to meld their speculation skills as well as their affection for risk-taking together to propel art as an investment to a new level. They do not look at art as an aesthetic asset but rather as an investment, which through purchasing can increase the desire for it and therefore increase the price. Just as these hedge fund managers do at their jobs within the financial world they take art and “establish ‘positions’ in certain artists whose market value they proceed to influence” (Crane, 339).

3. Valuation of Art

Art valuation is the ability to evaluate art as a financial instrument rather than as an aesthetic object. The art market consists of two markets, the primary and the secondary markets. “When it comes to the primary art market’s structure, one may argue that there is really only one market, since all dealers are, in the end, competing for the scarce resources of a group of people who are willing and able to spend money on art” (Velthuis, 15). The primary market is where a newly created piece of art is bought and sold for the first time. From then on, along with all of the art that has already been created it enters into the secondary market. The primary market is the one within which not only are new pieces of art sold, but also where new artists sow their seeds and begin to build their own personal reputation along with the reputation of their artwork. As a result, it is much harder to provide investors with real, hard data regarding the artwork sold within the primary market. This makes it difficult to accurately value not only the present worth of the artwork but also the worth of the artwork in the future. The market of buyers of art within the primary market is very small because of its higher risk. Because the potential buyers are limited, the primary market is a lot less liquid and much more volatile. In contrast, the artwork sold within the secondary market is much more understandable and much easier evaluated. “By definition, there is no secondary market for work by artists who do not enjoy a distinguished reputation” (Schonfeld & Reinstaller, 2).

Just like many other financial instruments, the value of art is not only based on its present-day worth but also on what its future demand will be. The elements of this value are not only based on its monetary value but what is incorporated within it is its cultural value. It is much harder and more complicated to evaluate art in the primary market then it is to evaluate art that has already been bought and sold and is now in the secondary market. The primary market is much more difficult to calculate and foretell because it has no history neither in the market nor with its valuation. There is no guideline with which to tell how popular it will become and whether it will be accepted and successful within the market. The only ones who are able to begin to value the market are trendsetters as well as gallery workers and agents, but even they have no concrete way of predicting the trends that contemporary art will follow within the primary market.

4. The Market for Paintings

Unlike the securities and commodities markets prevalent within the financial market, the art market is not analyzed on a daily basis. The art market is analyzed and valued much less often, generally in the spring and then in the autumn before the auctions which auction houses sell the art at which is only a few times a year.
Valuations and data can be obtained from auction houses and different companies, which specialize in tracking art and its values.

Art on the art market is traded both through auction houses such as Sotheby’s and Christie’s as well as through art dealers. Some of the art auction houses, which track and predict values of the art that they hold, sell and buy are called Christie’s, Sotheby’s and Phillips de Pury & Company. To predict the value of the art the auction houses track its value with sales volume, price levels, and pre-auction estimates. There are companies that analyze and then offer their analyses to the public to use in deciding which pieces they will buy and sell. These companies are known as ArtTactic and Artprice.

Before the actual event of the auction, the auction pieces along with both their presale lower and upper-value estimations are put together in an auction catalog. The seller’s reserve price is not included in this publication. These catalogs can be viewed by anyone interested in buying a piece of art. The seller’s reserve price is anywhere between 70-80% of the presale low price depending on the auction house. The reserve price is the absolute lowest price a piece of art must be sold at, and if no bidder will offer at least that amount, artwork holds an attribute called “buy-ins” so that then the auctioneer can buy the work “in house” (McAndrew, Thompson, 592). In this case, the piece can be sold at some point in the future, bought by a different auction house and put up for sale somewhere else or completely taken off of the market. When an auction begins the auctioneer opens with a lower price and as bidders commit to the price, the auctioneer raises the price higher and higher until there is no one who will bid higher in which case the bidding is finalized with the “hammer price” (McAndrew, Thompson, 592).

Art dealers deal privately with the owners and buyers of fine art. They work for specific clients offering the opportunity for the owners or buyers to have a more personal connection with those who are assisting them in the transactions of their art. It is hard to extract data from the “dealer market” (Campbell, 2). The prices of art pieces both bought and sold are difficult to get, and so this creates an invisible impact on the market. Because the data is not public knowledge, it has an impact on the market because they influence buyers and sellers, but it cannot be accounted for in the same way.

Art funds are also a medium through which art is bought and sold. The nature of an art fund is of a cross between an auction house and a private dealer. While not as big as an auction house it is more personable and so is able to remain in closer contact with its clients. Art funds are often privy to insider information and are able to spot inept areas within the art market.

On-line bidding is another way of buying and selling art as if it is through an auction but instead it is over the internet. Buying and selling art over the Internet offers a different more advanced way of acquiring art and it has unique characteristics. Online auctions enhance competition by providing information on the other bidders to one as one is bidding against them. The artist of the painting heavily influences the price of the painting no matter in what context it is being bought. When it comes to online bidding the pieces created by the most prominent and well-known artists always begin very high and strong. However, as the auction continues the prices of the pieces continuously decrease. As the auction progresses, however, by the middle the auction really picks up whether or not the pieces are by well-known artists or not. By the middle of the auction, the bidders begin to become excited about new artwork and artists, which they don’t know much about. In addition, rather than simply recognizing an artist’s name, the bidders begin to get more involved with and excited about understanding the subject of the painting and less the painter. By the end of the auction, the momentum of any auction slows down in general because either people have already spent their money or they are simply ready to leave.

The artist of the pieces being auctioned is what has the strongest correlation to the price of the artwork. When an artist is well known, reputable and famous his pieces will have the most positive and significant reflection in their prices. It is also the artist’s previous history within the art world as well as within auctions that majorly reflects and influences the prices of their pieces. The prices of the pieces for an artist who is well known and already established is very high at the beginning of the auction but as the auction proceeds, the prices tend to fall. The pieces by the artists who are newer to the market begin lower but as the auction continues the prices of their pieces grows and grows.

In on-line bidding, the price velocity of pieces of art by artists who are well known and reputable goes down as the auction progresses. Clearly, this implies that reputation is what makes for very strong bidding on a piece of artwork in the beginning but by the end, this becomes less important. It is possible that throughout the process of the bidding the bidders receive information about the pieces they are bidding on, or they see other pieces that they like more so that the importance of the reputation of the artist decreases and the auction and value instead becomes placed much more within the art’s characteristics.
The commodities and securities markets are both markets in which millions of investors, banks and companies invest, analyze and trade, buying and selling these commodities and contracts. Those who invest, buy, sell and assist in the exchange of art on the art market are much fewer. The art market relies less on uniform contracts and much more on the opinions and estimations of collectors, curators, market analysts and those experienced and specialized within the art industry. Because it is a valuation of a much less accurate level and it is more subjective, there are times when art is under or over-valued which increases the risk of investing, buying and selling of art.

Just as every commodity and security is rated on a financial index, art on the art market has its own index, but the art index is very different from that of the rest of the financial market. This is because art is not traded in the same way as other commodities, securities, stocks, and bonds. Different methodologies must be used, as art is such a different instrument. Art as a trading instrument is different in many ways. First, it is different because art is not traded on a daily basis the way stocks and bonds can be. The price isn’t reevaluated every day the way securities are; not only do their prices change daily but within the day and even within an hour or a minute the price can go up and down a few times. Because art is bought and generally kept by the owner for some legitimate and substantial period of time its price is evaluated much less frequently. The price of art is reevaluated only once the owner decides they want to look into selling it. In addition, the price of art is very dependent on the other pieces of art that are produced and are going to be bought and sold at the same time, and less about the underlying market itself as is the case in evaluating prices of stocks and bonds. In addition, indices do not take into account the transactions performed by dealers. The prices of the art that dealers are involved in buying and selling surely influence the market as a whole, however, it is nearly impossible to accurately calculate it. The two indices that are used the most with which to evaluate and quote art market prices are the Mei Moses Fine Art Index and the Art Market Research Art Index.

One art index is called the Mei Moses Fine Art Index. This index dates back to 1875 and incorporates a “statistical methodology” (Computation Data Collection and Latest Value of the Mei Moses All Art Index) incorporating the data of the average prices over time. It takes into account all of the times the same piece of art has been resold, otherwise known as repeat sales. It gathers its data only from public auction houses such as Sotheby’s and Christie’s. The data they use incorporate both present and previous buy and sell prices including premiums from all of the auction houses from any time in the past. It must be taken into account that repeats sold art has not only been auctioned more than once but often pieces of art whose value goes down significantly will not be resold. The results of the index are sound and “explain from 50-72% of the variation of a measure of the returns of the underlying objects” (Mei & Moses, 2).

The Mei Moses Fine Art Index is based on an annual index whose analysis is based on the buying and selling of the last day of the year. It began as an index analyzed on an annual basis, but ever since 1965 it officially became a semi-annually analyzed stock. Although generally analyzed on an annual basis the buyers and sellers within the art market want data about the fluctuations within the market on a more frequent basis. As a result, recently, the index has begun to be revised and released more often with updated information on the sales that have taken place up until then and presenting them as a year to date data as well. This index ensures that the same pieces aren’t taken into account for more than once.

Another index, which is popular and used often, is the Art Market Research index. The AMR index dates back to 1976. It provides monthly average returns. The data gleaned from the AMR index is often much larger than that of the MM index.

Art is analyzed based on estimations of the market demand, liquidity, average sale price and mean estimates. The rate of return is one calculation that is heavily influenced by the dealer’s information but is not made public. Dealers will buy low and sell high, incurring transaction costs and thereby diminishing the investor’s rate of return. Art funds also influence the rate of return often making it appear larger than that which the public thinks it is.

The art market was extremely successful until the bubble burst in 1991. The MM Index doesn’t portray the bursting of this bubble to the same degree that the AMR index did. Downturns in the art market can occur when the economy is down, leading to market illiquidity. When artworks cannot be sold for the prices which they are valued at, the entire market becomes illiquid and the art market faces a bigger liquidity risk than do the markets for various financial assets. When art is not being bought and sold it can have a severely dramatic effect on the art indices, and it can result in significant estimation errors. Art is an asset which is analyzed only before it is either bought or sold and therefore very infrequently this contributes to the illiquidity of it.

The art market is one that seems relatively stable and not extremely volatile. This seems to be the result of...
“appraisal-induced biases, occurring during the indexation of the art data, and hence smoothing the returns” (Campbell, 16). However, it is very important that the data of the art is studied very carefully because it is mostly appraisal based. Appraisals are highly respected and taken into account and so influence the art world a lot. However, it is still the true market returns, which must be analyzed and studied in order for investors to rely on making true and accurate decisions about the art market. In order for art to be viewed as an equal investment opportunity for other financial securities, it must be “desmoothed” (Campbell, 16). Its statistics and economic numbers must be evaluated at true market value so that they can be analyzed in comparison with financial instruments. This desmoothing “eliminates, as far as possible, any underlying autocorrelation, which tends to be characteristic of these smoothed series of appraised returns” (Campbell, 16). Additionally, this smoothing can be used for art indices, which also seem to exhibit more risk than they actually incur.

Pricing pieces of art is one of the most difficult tasks within the art market. It is also one of the most fundamental and important tasks, as in the present day “the price paid for a work of art becomes its absolute and authoritative value” (Kuspit, 4). While there are some fundamental guidelines we can understand that contribute to the prices of artwork, as a general rule art cannot be objectively evaluated. One reason is because of everyone’s different tastes and ideas of what makes a piece of art an artwork. In addition, popular artwork is something that is constantly shifting. As different art collectors get larger and come into the mix, the different styles become more prominent. Within galleries in the art market, there is a phenomenon called the “Edgeworth Cycle” (Schonfeld & Reinstaller, 5). This occurs when “high process allow a gallery to gain market share by undercutting the price set by its competitors. At ‘low’ prices profits can increase by raising prices...under these conditions no equilibrium in pure strategies exists; galleries always have an incentive to change prices in order to increase profits” (Schonfeld & Reinstaller, 5). If prices of artwork were based only on the size, medium, and other tools which were used to make the piece of art along with the reputation and past of the artist, then the pieces would be priced just slightly over the competitive price. This is a result of the costs incurred by collectors who while have already collected one genre of art begin instead to collect another type. As a result of this switching costs the risk of losing market share is very low.

5. Determination of Prices

There are many different factors that go into determining the price of any given piece of artwork. The first is the artist himself. Whether the artist is alive, dead, young, old, already famous and well respected or new and up and coming influences and impacts the price of the artwork. The artist’s prior sales history and the price of their previous artwork can heavily influence the price of their current art. The size of a piece of art must be taken into account. If it is large and made of expensive material that could drive the price of the piece up, but in the same way if the piece is small and so requires a lot of time and care in producing the piece that could drive the price of the piece up as well. The medium of the artwork heavily influences its worth.

Whether it was painted on canvas or paper, using acrylics or watercolor. The piece could also be a statue made of bronze, marble or plaster; all three different mediums all costing different amounts. Just as in anything, the price is heavily influenced by the demand of the piece. If there are many people who are viewing for this one piece the price will be driven way up, while at the same time if there isn’t a lot of competition to own the piece it won’t be very expensive.

Previously mentioned was that much of art is sold to big collectors who view art not only as an aesthetic piece to hang in their house but also as an investment and an asset in which to keep their money. These collectors often bid for the pieces or sell their own pieces through an auction house and in an auction. The auction itself can heavily influence the price velocity of a painting causing it to go up not only prior to the auction but even during it as well. Sometimes the price of a piece of art will begin very high and strong and by the end of the auction, its price will have fallen. The opposite is also true, a piece can begin low but its price can be driven higher and higher as the auction proceeds. The trend seems to be that often a piece of art will begin with very high bidding in an action when the artist is already established and well known. Those artists who are prominent and reputable have a positive correlation with price levels at the beginning of the auctions. There doesn’t seem to be any correlation between movements of prices of pieces based on the mediums, which the pieces are created out of.

There are a few different types of art each one with a different clientele, and so it attracts different financial patterns. Each art collector has his or her own style and genre of art that most interests him, and so individually each collects and is educated in one specific style or artist and therefore buys most of his pieces by this artist. It is in this way that we can be assisted in determining the future buying patterns for a specific artist and type of art. Fine Art appeals to its owner more for its aesthetics than for a particular function. The buyer might pay a lot for it both because it could be valued a lot but also because he feels a connection with it and enjoys it from a hedonic
point of view. The value of pieces of fine art can be harder to peg because each piece is unique and very different from any other piece. In addition, as it often appeals to people based on their tastes, it is much more subjective.

6. Growth of Industry's Artists

Artists are no longer an anomaly within the workforce. The numbers of people, who take materials, put them together and label them as art as has grown tremendously. Along with the growth of the number of artists so have the ways artists approach their method of portraying art. Aside for art within auctions art can also be sold in galleries. The value and pricing evaluation for art within galleries can be analyzed in a very different way from the art that is sold through auction houses or online auctions. The primary market, which consists of artwork that is much more difficult to evaluate as a result of its lacking history within the art market as well as its artist lacking credibility, is what significantly raises the importance of galleries as intermediaries. It is these galleries, which offer help in navigating the way for potential buyers of any art and especially the art of the primary market.

O. Velthius, someone who has evaluated the prices of artwork and especially contemporary artwork explains that art dealers and gallery owners must apply rules of "pricing scripts" (Schonfeld & Reinstaller, 2) which are "a set of routines which function as a cognitive manual for the variety of pricing decisions that a dealer needs to make at different stages of an artist's career" (Schonfeld & Reinstaller, 2). It becomes a collaboration between the dealers, as well as evaluations of the artists and their works. As a rule of thumb, in evaluating the art of new artists, dealers compare them to artists with similar styles and techniques. For those artists who already have a history of selling their art, their trends are identified and examined. For their own parts, the gallery owners organize showcases of the artists that they represent. They invite many guests whom they think will be interested and able to afford this specific type of art. The gallery owners through association are promoting these pieces, and so, if the potential investors trust the dealers, they themselves can help to drive the prices of the pieces up. "Scripts enable dealers to price art systematically and make prices predictable" (Schonfeld & Reinstaller, 3). Because all of these factors are "observable features" (Schonfeld & Reinstaller, 3) Velthius believes that price is not so much influenced by the economy and financial aspects of art but rather the more aesthetic side of it. Schonfeld and Reinstaller point out, however, that Velthius' analysis must also include "economic determinants in the pricing decision" (Schonfeld & Reinstaller, 3). Prices of pieces of art are not only based on the pieces and the artists but also on the galleries, which house them. Galleries may keep their prices low or high in order to compete with the other galleries around them. It is in this way that galleries can directly influence the price of the artwork.

To many art historians and those more interested in the spiritual and personal side art has with the viewer believe that the price of artwork has begun to dominate the art itself. Rather than people looking for meaning within the art they are viewing or buying, they look to the prices of the art for the significance of the art as an artwork.

7. The Primary Market and the Development of the Prestige of Paintings

The primary market encompasses two sides of the art market, the buyers and the sellers. While it seems that the relationship, as well as the strategies of and between the two sides of an art transaction, may be more analytical they actually have fundamental economic and financial features. The trustworthiness and reputation of an art gallery are most important in ensuring art will be bought at high prices from it. The status of an art gallery is extremely important because it is a standing that anyone, even the layperson with no background in neither art nor finance, can understand and be made aware of. There are a few essentials that go into the reputation of an art gallery. The first is the galleries ability to pick and showcase art that is or will become popular and whose value will go up. In addition, the gallery should be able to pick out the artists who are not only producing great art now but who will be able to continue producing high-quality art into the future. When one buys art from a gallery the artist, as well as the agent associated with the gallery, begin to form one unit, and this is the unified unit which buyers trust. Aside from the relationship with the artist, another important relationship the gallery must have is with the investor. In order to raise its reputation and credibility, galleries want to attract and maintain customers who have a high net worth and also good taste. If a gallery can land the support of a collector whose taste is well respected, this will attract many more collectors of the same type to their gallery. When potential investors trust the gallery from which they buy their art, it raises the reputation of the gallery, and so investors see less of a risk in buying art from that particular gallery. As a result, just as the reputation of an art gallery soars, so can the prices of the pieces of art be raised.

When a gallery picks up an artist it is not only the gallery who must approve the artist, but the artist must also approve the gallery. "By the mere act of deciding to feature an artist the gallery sends a signal to potential customers, but also to the artist, namely that it trusts her." (Schonfeld & Reinstaller, 4). It is then that the true relationship between the two can begin to be built. Not only does the gallery trust the artist by putting its
reputation on the line for it, but also then the artist must begin to trust the gallery. They have to see and feel that the gallery is doing everything in its power to make the artist and their showcase a success. The gallery needs to present the artists' shows and make sure that reporters and journalists cover them. They have to make sure the artist receives the proper public relations assistance in promoting their art not only to the media but also to an audience which will come and view the art. This audience must consist of the layperson, art experts, reputable people and especially big art collectors who will either buy the works themselves or spread the word about the works to their fellow art collector friends. While it can be said that all of the galleries are competing against each other, on the other hand "each gallery is a monopolist that, with a relatively stable set of artists on the supply side and collectors on the demand side of the market hardly faces competition from its colleagues" (Velthius, 15). This not only acts as another way of getting the artist’s works bought, but it also helps bolster the reputation of the artist and of the gallery representing the artist.

The collectors themselves develop a relationship with both the gallery and the artist. The buyers must trust the galleries to sell them art, that will rise in value and reputation. The collectors will purchase works that they especially enjoy and feel a connection to. “Buyers…can also be classified, namely according to the art know-how they have accumulated…people’s tastes are rooted in the specific social environment in which they have grown up” (Schonfeld & Reinstaller, 4). As a result, people tend to buy and stick to one style of art. Generally, most of the pieces that they accumulate will, therefore, be by the same one or few artists and so it is possible to look at the artwork accumulated by one buyer and be able to somewhat predict what the future artwork they will buy will be. This is known as “consumption capital” (Schonfeld & Reinstaller, 4). This consumption capital keeps a collector from diverging from the one type of artwork that he or she collects. “Given these priors, they have accumulated consumption (or art) specific human capital” (Schonfeld & Reinstaller, 4), and as a result by switching the type of art they buy, they actually acquire switching costs.

The other side of the primary market consists of the sellers. Just like buyers, sellers develop reputations. Their reputations are based on the total art that they have acquired, the art that they have sold and the art that they have kept. Their reputation is also dependent on the artist of whose art they have bought and sold.

Just as the relationship between the galleries and the artists and the galleries and the buyers is important, the same importance is placed on the relationships between all of the different galleries. Much of what each of the galleries do is in reaction to what another one is doing. The interactions between the galleries are multifaceted. While they ultimately remain in competition with each other, they are also within the same art world and community and so must interact and be cordial with each other. Often, they are in the same neighborhoods and display at the same art fairs. It is a result of this, coupled with the aforementioned fact that it is nearly impossible to predict the acceptance of and therefore the price of a piece of artwork that contributes to the instability and uncertainty of the art market and its prices.

Very often investors will buy commodities and invest in stocks to use as collateral for some time in the future. While an investor can use art as collateral, it does not have the ability to serve as collateral in the same capacity as financial instruments do. Art is not an instrument like a bond, which can generate any cash flow over the course of ownership. It is an asset that only generates money at the end when sold as one lump sum of money. A few investors may want to put themselves within such a financial position, as it makes it more difficult to get a hold of money quickly. They have to wait to generate any income from their investment until they sell it, and that is if they sell it. A big risk involved is that potentially an investor could decide they need to sell their art in order to generate some income and cash flow and bring the art to the market, and there may not be anyone there who wants to purchase it. It could take days, weeks, months or years for the owner to find someone who wishes to buy their art. In the event that they need the money urgently, this could present a big problem. In addition, just because a seller does find a buyer does not mean that the buyer will be willing to pay the full amount that the seller is looking for. The seller may only be able to find a buyer who will pay less then what the seller was hoping to make. In this case, he may make some money off of the piece, but if it is not as much as he had expected to make he could find himself in a jam where he owes more money than he is able to raise by selling his artwork. If the borrower cannot make enough money from selling his art, he may not be able to cover the full amount of his loan, in which case he will suffer from a collateral shortfall.

When borrowers come into banks and ask for a loan generally the banks will offer them one and use large assets as collateral such as homes or cars. In general, in the past banks have refrained from allowing clients to use artwork to serve as collateral for a loan. This is because of a few reasons. First of all, art value is not easily predicted and is not an asset which should be credibly counted on. It is “viewed as difficult to value or within to volatile a marketplace” (McAndrew & Thompson, 591). In addition, within the art world, there is a major lack of those who understand finance and who can put into words and be able to document the impact that finance has
on the art market so that financiers can be able to understand it as an investment with proper data and analysis. Despite its uncertainty, art as collateral and as a valuable asset for investors has begun to become a much more popular concept. This has mostly been influenced by the rising prices and value of art. As a result, the population has begun to become more attracted to art as an investment.

The style of art has significantly evolved over the centuries. Today, contemporary art had taken on a modern side reflective of the way society is today. In the past, there was a “reward system associated with high culture...symbolic rewards were more important than material rewards, unlike the reward system for popular culture...in which material rewards were more important than symbolic rewards” (Crane, 332). Culture has changed itself significantly within the past 20 years. It used to be that Hollywood and those who were famous lived their lives according to a certain level of class and high culture. Over the years, culture has changed, so that celebrities now do what they want, when they want and without boundaries and limits. They have become less concerned with their roles as leaders and role models and this has significantly impacted the level of art as well.

The geographical locations of where art is created and sold have tremendously expanded within the last two decades. Until the 1990s, the centers of the art world were in New York, Paris, London, and Berlin. These locations were “elite art worlds” (Crane, 333) in which galleries took precedence in the way art was displayed and sold. Auctions were much less common and primarily for artists who were deceased. Artists, as well as viewers, were much more focused on the aesthetic gain of producing art than the monetary one. The primary time that art was viewed alongside its price was only by museums which wanted to accumulate a lot of art and who had funds with which they could do so. Even within the museums putting together the art shows by the museum’s curators was a much more important, significant and respected task than those who dealt with the financial side of accumulating all of the art. “The existence of an art world implied that art was a collective activity based on shared commitments to artistic conventions that defined what was considered to be art in a specific period and how it should be produced” (Crane, 333). When art was available in only these limited elite cities, art as a study and an understandable field was not available to the average person. Most people could not comprehend, relate to and appreciate art. The “social, cultural, and organizational changes in the past decade have produced a global art market” (Crane, 33) with the expansion of locations, the number of people who can observe and appreciate art has gotten wider and more extensive.

8. Value Influences

There is a saying that a piece of art only becomes famous and high in value when the artist dies. This statement is, in fact, true. “Death of a successful artist tends to bring about an increase in the value of his or her works because there is no possibility of additional works” (Crane, 341). When this happens, investors who are huge fans of a particular artist will not be able to find a price that is too high to pay for a piece that was done by their beloved artist.

The dealers and collectors of art can fairly be referred to as an audience for the art that is produced, and the “art world itself has been described as an industry” (Crane, 349). In the past, it could fairly be argued that art was not produced for the audience (with the exception of works that were commissioned) but rather were produced because the artist had something he or she wanted to express. The point of, and the value in art was to reveal a new idea to the world, fueling thought, conversation, advancements within society and culture and to delve deeper into what it means to produce art and be an artist. In the 21st c. art has instead become much more focused on the audience. This audience used to be individuals who studied art and truly grappled with what the artist was trying to portray. They would devote hours and hours and a lot of time to understanding and converse about art and what it means. Today, artists “see the audience as a homogeneous mass, not unlike the way Hollywood sees its audience for blockbusters” (Crane, 345).

The production of artwork has significantly changed. It used to take the art, the artists’ materials and their own thought and emotions and a piece of art become produced. Nowadays, art has become such a popular medium that just as prices for the production of movies and television shows have skyrocketed along with the salaries of the directors, actors, and screenwriters, so too have the costs of the production of art gone up significantly. Just to produce art, often times it now requires investments by dealers and collectors, along with employing artists’ assistants who create the artwork under the artist’s direction. Just as movies, television, and other productions are now these monumental visions and productions, so is art. Artists now envision art on such a monumental scale that it requires an entire band of people. Art installations in urban areas are a technique that has significantly grown popular. This makes art available for the public’s viewing pleasure, which is an even greater step away from art available only to an elitist group. It has gotten to the point where no one has to pay a penny or make any effort to reach a piece of artwork, rather on their way to work, within their own time and convenience they can
view art. Because these installations are within urban settings usually they are huge, so that the cost for the materials alone is monumental. In addition, when there are public installations they are usually temporary and so require large sums of money to put up and take down.

9. Conclusion
The art market is one that has begun to be driven by “rational individuals who permanently strive to maximize their profits.” Instead of art being produced for art’s sake and for purely aesthetic purposes it has begun to become another tool through which large sums of money can be made. Art and the art market “should be understood in network terms…market exchange is invariably embedded in social networks”, and “markets are the antithesis of social and cultural life” (Velthuis, 3).

References


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