
60 Visual arts

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The visual arts is the sector of the art world where old, modern and contemporary works of art are produced, distributed and consumed. The sector comprises three different types of economic actors and institutions: actors who exchange works of art on the art market, cultural institutions and organizations which provide financial support to the visual arts. First of all, this chapter discusses these three types of actors in turn, before elaborating on the dynamic interaction between them by focusing on commercial art galleries.

Participants in the art market

The visual arts are centred upon the art market, where producers (artists), distributors (for example commercial galleries, auction houses, art consultants) and consumers (private collectors, companies) exchange art objects. The visual arts sector harbours two different markets: the primary market, where artists sell their work for the first time, and the secondary or resale market. Some artists sell their work directly from their studios. Others try to find an intermediary institution such as a commercial art gallery or an art consultant, who represent their work and sell it by means of posted prices. Although the economic value of art on the primary market is highly uncertain and uniform standards of value are lacking, auctions are never used to 'solve' economic uncertainty on this segment of the art market.

In most Western European countries and the United States, only a small percentage of artists can make a living from selling their work on the market. Works made by an even smaller percentage of living artists are traded on the secondary market. This means that only a limited number of all artworks that have been sold on the primary market will ever appear on the market again.

Since data on the primary market barely exist, this section of the visual arts has been largely ignored in cultural economics (see Rengers and Velthuis, 2002). Instead, most studies focus on auction sales on the secondary market. A caveat of these studies is that they assume explicitly or implicitly that art is bought for speculative reasons. In reality, however, motives for buying art are manifold. For instance, collectors acquire art for the aesthetic utility they expect to derive from looking at it, and for status motives (Grampp, 1989): art is amenable to what Thorstein Veblen has called 'conspicuous consumption': by consuming art, people can distin-

guish themselves from others. Financial reasons for buying art are likely to prevail on the secondary rather than the primary art market, since the economic value of art needs to be established to a certain extent before it becomes attractive as an investment object. On the secondary market, guideposts exist for economic appraisal, such as previous sales of works by the same artist, as well as the artistic judgement of the artist's *œuvre* expressed by cultural institutions.

Cultural institutions

Apart from economic agents who participate in the art market, the visual arts sector harbours various cultural institutions. These include museums where artworks are exhibited and preserved, 'alternative' exhibition spaces like artists' cooperatives, art schools and the art press (art magazines, newspapers and book publishers that devote considerable attention to the arts).

In addition to their cultural functions of exhibiting and reviewing art, putting artworks in a historical or critical context, and educating artists and their audience, these institutions participate in the economy of the visual arts. Museums, for instance, are a source of demand on the art market. They also have an indirect economic impact on the art market: museums, as well as the art press, are gatekeepers, which means that they make a selection from the large 'pool' of *œuvres* and individual artworks that have been made throughout history. Gatekeepers allocate scarce resources to this selection of artworks.

In economic terms, this gatekeeping role of cultural institutions serves to reduce information and search costs for economic agents on the market: a collector may economize on these costs if he wants to acquire art by taking the judgement of cultural institutions into account. By channelling resources to a limited group of visual artists, cultural institutions also enhance superstar phenomena within the visual arts. Finally, these cultural institutions generate 'credibility' or 'belief' in the artistic value of art among an audience of museum visitors and art collectors.

Several empirical studies (see Frey and Pommerehne, 1989; Galenson, 2000) indicate that the 'cultural judgement' of museum curators and art critics, on the one hand, and the 'economic judgement' of the art market, on the other hand, are correlated. This can be interpreted in different ways: either collectors derive extra utility from consuming artworks that cultural institutions deem important or the taste of collectors is directly influenced by the choices of cultural institutions.¹

Financial support for the visual arts

Thirdly, the visual arts include institutions that provide financial support for the arts. Governments provide indirect and direct support for

individual artists and for cultural institutions such as museums. Just as revenue from selling artworks on the market is only one source of income for visual artists, virtually no museum relies on entrance fees exclusively for its operational budget. In most Western European countries, government support is direct, in the form of subsidies to cultural institutions or grants to individual artists. In the United States, governments provide indirect rather than direct support for the visual arts by means of tax expenditures. If individuals or companies make cash or in-kind donations to cultural institutions, the amount can to a large extent be deducted from taxes. In themselves, these private donations constitute a third type of income for artists and cultural institutions, apart from market revenue and government support. Donations and gifts can take many forms, such as voluntary work performed by individuals in cultural institutions, charitable institutions whose members donate money to museums on an annual basis or people who provide their art-producing partners with the means of subsistence. Thus the visual arts relies on an eclectic range of economic support.

Contemporary art galleries

With their manifold relations to other economic actors in the visual arts, commercial art galleries are the central nodes or the ‘crucible’ of the art world (Fitzgerald, 1995). As will be shown, the economic structure of the visual arts unravels in the daily operations of art galleries.

Art galleries and other market actors

Art galleries mediate supply and demand on the art market. In order to do so, most contemporary art galleries represent a limited number of artists on a long-term basis (Rengers and Velthuis, 2002). This means that, like museums, they serve as gatekeepers to the art market: they make a selection of the many artists who seek to be represented on the market after leaving art college. Since commercial art galleries engage in a long-term, supportive relationship with their artists, they have an interest in establishing a firm market and a consistent price structure for an artist’s work. This explains their antagonistic relationship to auction houses, which do not have long-term relationships with artists, and have no incentive to avoid volatility in their prices.

Economic exchange between artists and their galleries can take three different forms: employment, direct acquisitions and consignments. In the pre-modern visual art world, dealers occasionally employed artists to make copies of a popular original image (De Marchi and Van Miegroet, 1994). Apart from dealers, courts frequently employed artists. In the present day, employment relationships are only found at the lower end of the market,

where art is sold by art gallery chains or art wholesalers. The artists they employ produce standardized artworks in semi-mass production.

Another type of exchange between artists and dealers is direct acquisitions. In this case, the dealer acquires artworks from an artist, and directly compensates the artist for them. After property rights are transferred, the dealer can decide when and at what price the artworks will be sold to a collector. For instance, he may decide to keep artworks in his inventory if he wants to speculate on future rises in the price level of an artist's work. However, within this system the dealer runs the risk that the economic value will never be realized. This system of direct acquisitions has been referred to as the French system, since it was mainly used by French art dealers in the late nineteenth and early twentieth centuries. Today, some dealers with extensive financial resources still buy works directly from artists if they consider the market for these works to be firmly established. Also direct acquisitions are the dominant type of exchange on the secondary art market.

Most commercial art galleries represent artists on the basis of consignments: the artist consigns his work to a dealer, who exhibits the work in the gallery space and attempts to sell it. If a work is sold, the dealer receives a predetermined percentage of the selling price; if the work remains unsold, the dealer can either keep it in its inventory, without transfer of property rights, or the artist can take the work back. In these consignment relationships, risk, which is high given the uncertain economic value of contemporary art, is shared between artist and dealer. A second advantage for a dealer of selling art on the basis of consignments is that the capital intensity of his enterprise remains low: since the dealer does not buy works from the artist, he does not tie up capital in his inventory.

Although standard, legally binding, contracts exist for consignment relationships, they are often conducted without them. The reason is that complete terms cannot be stated in a contract (Caves, 2000). For instance, an artist cannot be contractually enforced to continue producing valuable works of art in the future. Second, if a contract were written up, it would be difficult for one party to monitor the other and ensure that all terms of the contract are complied with. Third, litigation is expensive in the case of breach of contract and may damage the reputation of the artist and the gallery. Transaction costs involved in developing a contract, monitoring and litigation are in other words high in the case of consignments. Finally, it is questionable whether a dealer can expect financial compensation from successful litigation.

Art galleries and cultural institutions

Apart from mediating supply and demand, art galleries that operate on the primary art market actively 'promote' the artists they represent. This means

that they constantly bring the work of artists to the attention of cultural institutions: they try to make sales to museums and stimulate museums to organize exhibitions involving the work of these artists. Art galleries also encourage art critics and art historians to review their exhibitions, or commission them to write catalogue texts. The economic rationale of such activities is that they enhance the economic value of the art sold in the gallery. These activities underscore, on the one hand, the cultural role of economic actors like art galleries, and, on other hand, the economic role of cultural institutions like museums and the art press.

Art galleries and financial support

The main source of the revenues of art galleries is sales on the market. Nevertheless, art galleries can benefit from non-market sources of income such as government subsidies and gifts. In countries such as the Netherlands, art galleries receive government subsidies, in spite of their commercial nature. This support enables them, for instance, to participate in costly international art fairs. In the United States, art galleries help private collectors to negotiate favourable tax deals if they buy art at the gallery and subsequently donate it to a museum. Apart from benefiting from direct or indirect government support, art dealers participate in a dense fabric of reciprocal gifts and favours to and from collectors and artists. For instance, dealers acquire artworks directly from an artist or refrain from taking a sales commission if the artist needs the money. Like commercial publishers, dealers often use a system of internal subsidization; this means that they compensate the loss they make on artists whose work is less marketable with profits they make on commercially successful artwork. In return, some artists occasionally donate a work to their dealer. Likewise, in return for favours from a loyal collector to a dealer, such as backing the gallery financially, the dealer may reward him with ‘first choice’ when an artist’s output is in high demand. In short, the marketing activities of commercial art galleries suggest that the visual arts is a complex system, where different types of institutions and different types of exchanges contribute to the production, consumption and distribution of art objects.

Note

1. Most economists reject the latter effect, since it violates a core assumption of neoclassical economic theory that tastes are constant.

See also:

Chapter 3: Art auctions; Chapter 4: Art markets; Chapter 5: Art prices; Chapter 55: Support for artists.