Artfacts.Net Ltd.

Operating System Art World
Essay

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Dipl.–Kfm. Marek Claaßen
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1 Introduction

"...the work of art is the all-largest mystery, but humans are the answer." (Joseph Beuys, 1985)

Art is seen as something special, something mysterious and sacred. As one of the few things in the modern world, which is not profane. This is mainly because art is such a distinct part of humanity.

On the other hand, everybody can produce art. No technical skill or artistic qualification is needed to become an artist. There is no workmanship or certain way of design attached to the perception of the quality of a work of art. As the influential fluxus artist Joseph Beuys stated: every human is an artist.

Art, as a part of human expression, can be seen as a tool to enhance communication. Tool-making (not to be confused with tool-using) is inherent to human behaviour. Understanding art as a tool can help us to understand the role of art in society and the value that it is given in society. This tool is unique to human life and is unintelligible and even invisible to other forms of life (sometimes even to the average human, too).

As humans organize themselves into hierarchical structures, art is used to support these structures. In our contemporary world, the lever is the intellectual and social capacity to encrypt the aesthetic meaning of a work of art.

Taste in art is not only described by visual aesthetics but also inherits social, political and historical (i.e. all human forms of reception and interpretation bound into a visual or conceptual frame) capacities for perception.

Over the tens of thousands of centuries of production, reception and valuation of art, it has become complex, multi-levelled and in itself artificial.

The average viewer consumes art subjectively, influenced by the background of his/her personal visual taste, knowledge, interpretation, social class, religion, nationality, thus everything that makes up his/her being. The result of this consumption process is personal pleasure, dislike or confusion.

The professional’s response to art is very different to that of the average consumer. The various market participants have different ideas of what is important in artistic production. For the artist, it is their influence on the way other artists work. For the gallery, it is the artist’s fame that plays the important role. For the auction houses, it is the provenance of the work of art and the artist’s fame that counts.
2 Art Market for Contemporary Art

2.1 Introduction

The contemporary fine art market consists of two major markets: the primary and the secondary art market. The primary market deals with newly produced works of art. The secondary market is the marketplace for “used” works of art. Galleries promote their artists and try to brand their name and aesthetic style on the primary art market. On the secondary art market, particular works of art are resold through auction houses or art dealers.

Galleries work in both the primary and the secondary art market. As art managers, they build up artists’ careers and as art dealers they buy or sell works of art. In economic terms, the market size reflects the industry’s turnover like a department store’s turnover of new products. Companies producing and selling goods are normally organized as corporations on the stock market and are carefully monitored by chartered accountants. Production capacity and turnover are transparent. There is statistical data available for nearly all the products or services, which reflect our daily life (telecommunication, energy, financial services, transportation, tourism, etc.). However, there are no figures available showing the turnover of the primary art market. This is due to the special characteristics of the art market, in which the inventory turnover is very low, relatively huge sums of money are involved in infrequent transactions, collectors buy without receipt, trade transactions are made in cash, matters of privacy concerning taxation are also involved and the traded good itself is declared as or believed to be sacred.

It is estimated that there are around 18,000 galleries worldwide.\textsuperscript{1} On average, each gallery has an estimated turnover of 500,000 USD.\textsuperscript{2} This figure gives us an estimated turnover of at least 9 billion USD for the primary and part of the secondary art market. The auction market (secondary market only) has an annual turnover of 3 billion USD.\textsuperscript{3} Taking some additional private and institutional trading into account, the total market size of the secondary art market could be 4 billion USD a year. The total size of the primary and secondary art market is, according to our assumptions, roughly 13 billion USD. Some publications speak of 18.5 and other of 20 billion USD.

All figures for the secondary art market include the trade of contemporary art, impressionists, classical and modern works of art and include all artistic media (painting, drawing, sculpture, print and other media).

In terms of money, we are talking about a very small market. In 2005, for example, the market size for newly produced mobile phones was estimated to be 85 billion USD.\textsuperscript{4}

\textsuperscript{1} Artinvestor, 2002, page 172
\textsuperscript{2} Artinvestor, 2002, page 312
\textsuperscript{3} artprice.com, 2004, Tendances du marché de l’art
\textsuperscript{4} Java Embedded Systems und Mobile Commerce, Institut für Informatik der Universität Zürich, 2000, page 4
In terms of places where contemporary art can be viewed or purchased, there are, aside from the estimated 18,000 galleries, roughly 22,000 thousand museums, art institutions and public collections, 1,500 auction houses and about 200 - 500 art fairs and shows. All in all, there are 42,000 venues, which exhibit approximately 420,000 modern and contemporary artists worldwide. That is 1 venue for every 160,000 humans! Or 1 work of art for 800 humans.

2.2 Market Functionality

2.2.1 Price finding

The price mechanisms for the primary and secondary art markets work in different ways. On the primary art market, the price of the work of art is based on its size and the reputation of the artist. That means, for example, that every work of art shown in the exhibition has the same price per square inch. Any work of art could be substituted by another one in the exhibition. No price differentiation has been made on the basis of quality.

On the secondary market, every price for a work of art has been estimated uniquely. Key art works or works with a particular collection history by a certain artist will be estimated higher and therefore offered at a higher price than minor or average works of art by the same artist.

2.2.2 Career design

On the primary market, the gallery owner works as a manager for the artists of the gallery. The goal is to make “his” artists internationally recognized and famous. The artists have a contract with the gallery and they usually work together over a long period of time. Galleries, which have a strong, long term working relationship with an artist, are called primary galleries. Managers of primary galleries try to build a worldwide network for their artists. They exchange artists with other galleries, take their artists’ works to international art fairs, maximize media relations, organize the participation of the artist in major shows, etc.

Gallery managers are seen as aesthetic risk arbitrageurs. In the normal sense of the word, an arbitrageur takes advantage of momentary disparities in prices between markets in the hope of profiting from the price differential. An aesthetic risk arbitrageur engages in arbitrage between time spaces. Each gallery’s artistic position is a bet on a future mutual taste (i.e. aesthetic branding). This is why each gallery has a portfolio, which includes varying artistic expressions, fields and genres. If a certain market segment has grown significantly, the gallery manager will focus on particular art subjects (e.g. abstract or figurative art) or techniques (e.g. installation or photography).

On the secondary market, the provenance of the work of art is essential. To gain
high prices, a work of art has to have four characteristics: a notable, well known creator, an excellent collection/exhibition history, a good restorative condition and a proven statement of authenticity.

2.2.3 Market failure

The quality of a contemporary work of art cannot be measured in standardised 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 similar way to the system of quotations in the field of science. A scientist’s notability increases according to the number of quotations he/she has published in scientific publications. If a journal publishes work by particularly notable scientists then the value of the quotations increases further. This phenomenon is called a self-referring system. The art market works with the same mechanisms.

This system works efficiently in the art market as long as the quality and quantity of assignments continues to rise. In the event of market failure (i.e. no demand) the artist or the work of art is forced to leave 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 programme 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 similar mechanisms to the sport world, 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 even 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, which are publicly offered on the secondary art market but remain unsold are labelled 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.
2.3 Geographical structure

As mentioned earlier, the art market works in a similar way to the sports world and is structured much like a football league. The world championship is at the top of this league but the selection process starts on a 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.

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 has influenced each nation differently and therefore the aesthetic taste and the interpretation of visual signs are also different. In China, for example, it is a commonly accepted sign of quality if an artist copies or includes traditional aesthetic or technical styles in his/her art works. 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 carrier and try to refer only to quality - which can be described by 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 comes 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 mainly driven by Western societies. Societies, which 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 “heroes” in the system. The art world meets at these events and recognizes the chosen ones as candidates for a higher level of performance.

2.4 Conclusion

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 potential consumers. This incomprehension and the lack of conviction of a large section of society in their own taste explains why the art market continues to have such a unique character.

This basically means that the professionals designed a kind of private code that art consumer can not decrypt. That makes the consumer feel uncertain. The other thing is that often people do not trust their own taste. They look what others do and copy that.
Uncertainty and incomparability are fatal to market development because investment decisions are not based on objective terms. Investment decisions have to be based solely on the opinions of critics and marketers recommendations. Unlike other art forms (e.g. film and music) fine art products are not endlessly copied and therefore have a unique quality to them. As long as investments in aesthetic pleasure are extremely low, the consumption decision is a limited risk. The rare nature of Fine Art means that it always has an investment component attached to its consumption, comparable to real estate. 

This means that if art consumption is relatively cheap people do not bother to much about the loss of money.

The lack of certainty makes the art market a playground only for the super rich or for very well-funded institutions.

To enhance market activity, diverse objective and trustworthy institutions are called on to provide information and standardization in terms of:

- Standards in classification
- Reliable data storage and data transparency
- Rules of market behaviour
- World wide jurisdiction

3 Artfacts.Net™

3.1 Mission

Artfacts.Net™ is an international guide for modern and contemporary art with emphasis on the primary art market.

Artfacts.Net™ publishes, in the form of a reference book, the activities of leading art institutions in a homogeneous layout. The main objective of Artfacts.Net™ is to display the dynamic trade and exhibition relations between artists and art institutions in a multilingual environment.

Artfacts.Net™ collects, classifies and publishes current international art exhibitions and trade relations via an extensive database and a dynamically generated website.

The aim of Artfacts.Net™ is to provide an online structure for art institutions and internet users to offer an insight into the current state of the contemporary art world. Artfacts.Net™ publishes, without modification, content provided by its business partners (galleries, museums, art centres, art fairs, art shows and associations). Artfacts.Net™ is used as a reference tool listing and organizing unbiased information on exhibitions, artists, galleries, museums and other art related institutions.

Thus, Artfacts.Net™ neither aims to be an art periodical covering current issues and happenings in the art world nor an exhibition guide publishing information on
every local gallery or museum. Artfacts.Net has strong roots in internet publishing and provides automatically processed information mainly for art collectors. Artfacts.Net actively seeks business partners amongst the leading international art institutions and also works with lesser known yet noteworthy galleries, museums and associations.

3.2 History

Between 1998 to 2000 Artfacts.Net established itself as a Europe-wide network through close collaboration with the German Art Dealer Association and the Fédération des Associations Européennes des Galeries d’Art, Paris.

Several factors led to the foundation of Artfacts.Net Firstly, the concentration of the major auction houses and their online activities, secondly, the decline in public attention given to exhibitions held in private galleries and lastly the absence of European galleries on the Internet. As 38% of all galleries worldwide are located in Europe, there was a definite need to set up an online network. In spite of cultural and linguistic differences, Europe continues to grow together through the work of the European Union and various European associations, such as the Federation of European Art Gallery Associations. This makes Europe the ideal prototype for a network, in which writers can enter information in their native language over the web for immediate release.

On May 1st, 2000, the prototype was put online. In September 2001, Artfacts.Net was officially launched by Artfacts.Net Limited in London. Since then, Artfacts.Net has become one of the biggest and most influential art directories in the world. In 2004, the ranking system was set up. In the last few years, Artfacts.Net Ltd has also been very active on the international art scene, taking part in numerous major global art events. Artfacts.Net is fast becoming an institution on a prestigious and elite market.

3.3 In Numbers

Since its foundation in 2001, Artfacts.Net has developed a database through its collaboration with galleries, museums, art fairs and national and international art dealers associations. The current data is comprised of verified information on:

- 3,000 exhibitors worldwide
- 33,000 artists’ biographies (including reference to auction data)
- 20,000 exhibitions worldwide
- 20,000 artists in the Artfacts.Net Artist Ranking
- 150,000 images of works of art
The figures listed above should only be viewed as an intermediate step in data collection and representation.

4 **Artfacts.Net™ Artist Ranking**

The Artist Ranking orders artists on an ordinal scale according to their recognition in the eyes of professionals (i.e. curators, gallery owners).

The aim of the Artist Ranking (A.R) system is to order artists by their exhibition history. The A.R evaluates exhibitions held on an international level since 1998.

The basis of the A.R thinking is based on Georg Franck’s theory of the economy of attention. Franck claims that attention (fame) in the cultural world is an economy, which works with the same mechanisms as capitalism.

Capitalist or economic behaviour is based on property, lending money and charging interest. For Franck, the curator (e.g. the museum director or the gallery owner) acts as a financial investor. The curator/investor lends their property (their exhibition space and their fame) to an artist from whom they expect a return on their investment in the form of more attention (reputation, fame etc).

Therefore, the relationship between gallery owner and artist is like that between investor and entrepreneur. The investor puts his money into companies from which he expects to gain rewards. This is always a mixed batch, where a few succeed and pay for the misinvestment in the others.

With the above-stated theory in mind, the A.R system aims to rank only the artists who are rank-worthy. This does not mean that any artist who is not in the ranking or is not highly ranked is a bad artist. It simply means that in comparison to other artists, they do not have as much exhibition activity.

The A.R does not judge the work of a specific artist. It simply orders artists according to the professional attention invested in them. It provides the wider audience with a feeling for where a particular artist stands in the eyes of the professionals and is also disconnected from the artist’s economic success. Artfacts.Net assumes that there may be a correlation between fame and money but showing this is not the main aim of the A.R.

A.R places great importance on the international representation of artists. Only artists operating in international structures will be chosen as a primary value source because A.R recognises the worth of mutual knowledge. Only artists who are common to diverse societies, countries and/or cultures will be really important and therefore create a kind of brand or universal value (like a standard). So the A.R uses presence on an international level as a standard for the basic calculations.
5 Appendix (Brief Description of the Author)

Marek Claßen

1988: *Apprenticeship* in Galerie Brusberg Berlin which featured classic modern art, especially surrealism, and contemporary figurative works of art. The gallery was one of the founding members of the first art fair in 1967 (nowadays known as Art Cologne) and was strongly engaged in trading East German art in the western hemisphere.


1996: *Manager for database enhanced production* at the Technische Universität Berlin in close collaboration with the Bundesverband Deutscher Galerien (the German art dealer association) and Art Cologne art fair. Among others, lecturer at the 9th International Conference for Cultural Economics; Boston, MA (USA), the International Association for the Management of Arts & Cultural 4th Biennial Conference, San Francisco, CA (USA) and the 10th International Conference for Cultural Economics; Barcelona, Catalunya (Spain).

1998: *Nominated* by the European Union (DG XIII) as “One of Europe’s Best in Multimedia” for a multi-platform CD-ROM production called “Art of the 60s”.

2001: *Director* of Artfacts.Net Ltd. Developer of the first dynamic artist ranking system. The artist ranking system was discussed in the New York Times January, 22nd 2005 and in various other newspapers around the world (Haaretz, El Pais, Ë.).

2005: *Lecturer* at the 2nd Beijing International Art Biennale Academic Symposium; Hefei, Anhui (China).