THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON INTERNATIONAL ART TRADE

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ABSTRACT

The impressive performance of global art markets during the 2007-2008 financial recession has brought the topic into the forefront, although being a less frequently studied part of political economy. The present thesis focuses on the reasons for which art markets have recovered significantly faster respected to financial markets giving an insight in the European market – especially studying the case of France, Italy and Hungary. The paper aims to highlight the long-term benefits of investing in artworks, both from the part of private investors and the state. Its positive effects on global economy, the thesis assumes, come from the special character of art markets that gave the possibility of sustainable growth after the crisis. Art market movements during the recession studied in the present work shows the relevancy of the subject in terms of the potential contribution of art dealing to global economic growth.

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Introduction

The 2008 financial crisis has brought major changes in international financial markets causing general recession and economic collapse. Since art markets are part of the global trade network, they were inevitably touched by the downturn. However, in many cases, they reacted differently, often even in contradiction to international financial tendencies. Despite the presence of price bubbles at different markets, in the case of artworks, prices remained relatively high and quantity of sales did not significantly diminish, at least not instantly after the eruption of the crisis. Also, art trade has recovered faster than other segments of the economy and is still considered to be a safe investment. Changes in global economy from 2007 drew the attention of experts to the mechanisms of the particular market of cultural property. Questions such as in what way the international art market functions differently from other markets and how could domestic economic measures affect the market became relevant.

This thesis aims to examine the topic from the above-mentioned aspects focusing on international cultural property trade during the crisis in two of the leading countries of the European art market, France and Italy as well as the Hungarian market representing the Central-European region. The study of the effects of the crisis and national answers given to them in the European Union, especially focusing on France, Italy and Hungary serve the objective to compare advanced market and post-transition economies. The parallel examination of these countries' art markets and the recovery of the sector is needed in order to identify the elements that differentiate art markets from other financial systems. Departing from market analysis performed between 2007 and 2014, the thesis will move forward to study the causes of differences and similarities concerning the impact of the financial recession. Thereafter, it will concentrate on the consequent economic measures that enhanced the development of international art trade in the given time period. The study of the financial crisis' impact on the cultural industry can help us to place art markets into the frame of global economy and understand the particularity of this specific segment of cross-border trade. Furthermore, the subject connects international relations and cultural economics that is a possible contribution to the relatively poor literature on the topic.

Chapter 1: The Research

1.1 Research Question and Hypothesis

As suggested in the title, the thesis is based on a comparative research on the connection between the recent financial crisis and the movements of international art trade. For this to effectuate, I depart from the financial crisis as the independent variable. Within this variable, I will focus on the crisis at a national level in France, Italy in contrast to Hungary as well as the influence of the crisis specifically on the art market. Changes and development of the art market within the time period given (from 2007 to 2014) constitutes the dependent variable. Data described below about the development of financial markets are going to be compared to that of art trade in the given time and space at first place. Secondly, a comparison of the recovery of Members of the European single market in general is going to be put in parallel with that of the French, Italian and Hungarian art market. I assume that the two comparisons will lead to the result that although generally speaking art markets shows a similar line of negative growth, it has recovered faster from the crisis and most importantly, the measure of the crash was not as severe as its impact on other financial markets. The reasons of these assumptions are going to be provided in Chapter 4 of the thesis.

The puzzle of the paper is based on the fact that during the global financial crisis, art market sales did not instantly diminish in amount, prices did not stop to growth and the recovery after 2010 was also quicker than in other sectors of the economy. This phenomenon leads us to the research question that the thesis approaches from two different aspects. Most importantly, it addresses the question in what way global art markets reacted differently to the crisis than other financial markets and for what reasons. Furthermore, it raises the question of how international art markets recovered from the crash compared to financial markets. In order to answer these questions, I depart from the following hypotheses. The first assumption of the study would be that one can notice important differences in terms of market reaction to the financial crisis in international art trade compared to other markets. Secondly, that these differences come from the nature of the art market itself which shows divergences in functioning and operationalization.

The setting of the period examined is explained by the fact that it covers the years of the financial crash, the following downturn and the recovery process of markets. As for the choice of France, Italy and Hungary as the subjects of analysis, two main reasons are given. Firstly, the restriction of the analysis of the global financial crisis of 2008 is necessary due to the complexity of the subject. Therefore, I have chosen to focus on the Eurozone within which France and Italy represent market economies with relatively similar reactions to the happenings of 2008. In the same time, Hungary represents a different economic organization typical to post-soviet transition economies. Beside the contrast of their economy in general, regarding specifically art trade in these states one can also find interesting points to compare. The traditional and well-established art market centers, such as Paris, Rome and Milano in opposition to Budapest as one of the main Central-European cultural capitals shows different development and character in terms of prices and transactions. Nevertheless, as Chapter 4 concerning the recovery phase will point out, the long-term benefits of investing in art during recession is valid for all of the economies in question.

1.2 Literature

The literature is going to be divided into three major parts covering the main topics indicated in the previous chapter. One part of the sources of empirical information examines the functioning of global art trade from an economic point of view. Here, I aim to rely on the analysis of art markets such as the works of Ian Robertson, *Understanding International Art Markets and Management* and *A Handbook of Cultural Economics* written by Ruth Towse. The second aspect from which I analyze the literature concentrates on the financial crisis itself and on its impact on international art trade. In this point, studies about the effects of the 2008 crisis on global art trade, for example *Fine Art and High Finance: Expert Advice on the Economic of Ownership by McAndrew* and most importantly, annual art market reports, such as the *TEFAF – Maastricht art market report* and *The Art Price Annual Report* constitutes the basis of research and the source of data. While the former presents movements of the market in spite of global economic changes, the latter is a data collection of sales reports provided by auction houses. Finally, working papers published by the Central Bank of Hungary as well as the International Monetary Fund among other international institutions will constitute the sources in order to have a broader view on the mechanisms of the crisis and on the economic measures followed.

Cultural economics, especially art trade is unfortunately a less commonly studied field of political economy. I relied on the core works written in English, French, Italian and Hungarian, nevertheless, a large part of data derives from art market reports and articles, especially that published in the *Journal of Cultural Economics* and the *Financial Times.* The thesis attempts to relate cultural economics to economic theories in crisis resolution, for which reason it can serve as a linkage between the two subjects and attempts to contribute to the filling of the gap present in the literature. The use of such a variety of sources can help to incorporate in the research different point of views and to bring different aspects into the discussion.

1.3 Methodology and Theoretical Framework

The research will use quantitative as well as qualitative methods of data collection in order to effectuate the comparison explained previously. First of all, quantitative analysis of the data available is necessary concerning the Eurozone debt crisis and the downturn of the art market as well as the recovery of art trade. Mainly, I am going to focus on the dataset provided by the IMF concerning the financial crisis itself. On the other hand, art market reports, especially that of the so-called *TEFAF report*, the official annual dataset published at the international Maastricht fair will be used. Where necessary, for example regarding the situation of the Hungarian art market, interviews with gallery owners having leading role in the development of the contemporary art market will contribute to the data analysis. In this sense, interviews will give a small, but indispensable part of qualitative method. As a political economic subject, I find that the application of the two methods of analyzing empirical findings is the best way to solve the puzzle mentioned above.

Measurement of information is going to be effectuated by comparing data taken from the same year provided by one of the official sources mentioned above. The impact of the crisis on national economies is measured by examining GDP, inflation rates, gross government debt, current account deficit, statistics on transactions and trade activity. Concerning the European contemporary art market, the measurement of prices, sales both in terms of value and volume and market shares among other factors such as confidence index constitute the bases of analysis.

Concerning the justification of the arguments, I try to solve the puzzle by a methodology that follows the line of thinking presented in *Literature:* by dividing the topic into three major parts – the financial crisis, the art market and the crisis, the recovery of art trade – as mentioned above and relying on trilingual literature, articles and art market reports. Tables, diagrams and other figures are going to be provided and will constitute an important part of the argumentation. Conceptualization and background information about key words, such as bubbles in the art market, economic recession in art finance, cultural property trade, and market regulation is also going to be provided.

Theoretical approaches can be divided into two groups within the frame of cultural economics and political economy. Theories about the functioning of international art trade, art finance with a special focus on the changes during the financial crisis constitute one side of the theoretical framework. Here, data taken from annual reports can support the main hypothesis of the present thesis along with the core literature mentioned in cultural economics. On the other hand, the subject of political economy will be touched upon from the point of view of the debate on market regulation during financial downturns along with the connection between national economies and their financial as well as art markets.

As for the concrete research approach steps, I plan to proceed in the following way. In the next chapter, the functioning and the structure of global art markets in general is going to be explained in order to compare the specific cases of countries and to define the similarities and differences of this sector respected to financial markets. To continue, a general presentation of the 2008 crisis in the three countries is followed. Thirdly, the relation of the art market and the crisis based and the comparison of differences and similarities of market reactions is discussed relying on market reports. Finally, the analysis is going to be completed with that of the recovery of the art market in general terms in spite of global economic movements.

1.4 Aims and Objectives

Generally speaking, finding justified arguments in order to answer the research questions and support the hypotheses are the main purposes of the thesis. Being able to contribute to the researches on the topic by relating international relations focusing on international art trade as part of cultural economics with political economy is another objective of the thesis. Concerning the outcomes, I expect to find connection between changes in global economy, namely the financial crisis of 2008 and cultural property trade in the given countries. In the thesis I aim to prove that the way international art trade reacted to the crisis is a reflection of the specificity of the market in comparison to other global financial markets. Another objective of the research is to connect art finance to the broader context of global economy in order to see how national policymaking strategies and regulations to solve the crisis influence the recovery of global art markets. Additionally, I hope to give a closer view on the interrelatedness of international economic and cultural relations during and after the crisis. Based on the data furnished, I hope to highlight the major reasons and consequent changes of the financial crisis between 2007 and 2013 in France, Italy and Hungary in light of international art markets.

CHAPTER 2: THE FUNCTIONING OF THE ART MARKET

2.1 Conceptualization

International art markets like financial markets are highly dependent from macroeconomic movements and in this sense are mirrors of global economy. However, it is important to mention their specificities and independent characteristics varying from country to country that compose this special sector of the economy. Before entering in the analysis of the correlation between global financial crisis and its impact on art markets in the given EU states, it is indispensable to provide some conceptual background. Firstly, I would like to highlight that in the present thesis I mean by art market that of contemporary art and focus on transactions from the 2007-2008 crisis onward. Discussing the main concepts and specificities of art markets is indispensable if one wish to understand the parallel and contradictory movements of international art trade compared to other financial markets.

Generally speaking, art market is the concrete or virtual place of cultural goods' transactions. Its ambiguous value estimation makes art trade a specific sector of economy, since prices vary according to scientific, aesthetic, economic and commercial value of the artwork. What diverges in our case is the fact that purchase can depend on many non-material factors as well. Supply and demand are of course key elements in defining the market, although non-material factors such as the rarity or provenience of the object have the same importance. Speculations - stockage, chandelier bidding and marketing in order to raise the notoriety of an artist for example - can intervene in the supply-demand equilibrium. Another specificity of global art markets is that prices are accessible for every participant of the trade that increases competitiveness between actors.[1]

[1] Jean-Marie Schmitt and Antonia Dubrulle, *Le marché de l'art* (Paris: La documentation Française, 2014), 19-20.

Transactions can be effectuated via galleries, auction houses, individual dealers, museums or other state institutions. Since the last decade, online businesses have revolutionized art trade and brought efficiency, more accessibility and direct linkage between market centers. The new phenomenon of online auctioning took an important part of art deal around the world giving 5% of global art and antique sales with a growth rate of 25%, nevertheless, art fairs are still the most significant places of sale.[2]

As it is going to be discussed below, art market is a prediction market which means that works are valuated according to its monetary, cultural as well as predicted future value. This complexity of pricing gives the specificity of the market and its complex relation to global economy.[3] In addition, we can speak about the presence of a primary market that provides direct payment to the artist for new commodities in the market and secondary market where the work has already been sold at least once. The main difference between the two is not only the direct and indirect transaction between the original artist and the investor, but also the fact that in the latter, prices are largely determined by the principle of supply and demand while in the former the dealer and the original owner have more freedom in determining the price.[4]

In order to define what we mean by “work of art”, I use the concept of Moulin according to which an artwork is a fixed asset that has a financial as well as artistic and social value. It has a highly mobile character and possible profitability in the future which makes pieces to be a potential financial deposit.[5] The main specificity distinguishing art markets from other financial markets is the pricing process of works. Unlike other financial – for example stock or securities markets, the art market is composed by the demand of a relatively limited array of participants which phenomenon is mainly due to the non-exchangeability of

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[2] Dr Clare McAndrew, *The Global Art Market with a Focus on the US and China,* TEFAF – Maastricht Art Market Report, (Maastricht:The European Fine Art Foundation, 2013), 18.
[3] Stuart Plattner, “A Most Ingenious Paradox: The Market for the Contemporary Fine Art”, *American Antropologist*, 482-493, 1998.
[4] Michael Findlay, *The Value of Art*, (New York: Prestel, 2012), 32.
[5] Raymonde Moulin, *Le marché de l’art. Mondialisation et nouvelles technologies*, (Paris : Flammarion, Champs arts, 2009), 45.

artworks. Since pieces of art are not fungible contrary to stocks for instance, participants are limited in number. Additionally, the relatively small number of participants is due to market the difficulties to enter in the market. Barriers such as current artistic trends, marketing and public taste are not determinant factors in other financial markets.

2.2 Art Valuation

Financial valuation of a work of art is determined by monetary as well as abstract factors. Beside financial purposes from tax planning to insurance, art markets have also a certain cultural value, therefore elements such as aesthetics, provenance, subject of a work, rarity and condition make the process of valuation more complex and subjective. Due to the aesthetic side of price valuating, prices can be very fluctuant and have a higher potential to be manipulated. In this sense, although being determined by global economic fluctuations, art markets have a relatively high independence concerning pricing and estimating market demand in the case of art trade can be considered as more complex as in other financial or commodity markets.[6]

Finally, another difference in the functioning of art markets respected to financial markets is that pricing depends on the actors of the transaction as well. Artworks sold by notorious and well-established auction houses tend to be priced far above pieces sold by less well-known parties.[7] Despite these differences, art can also be considered as a certain capital asset with additional aesthetic value bought in the purpose of having profit from its resale and for tax purposes. What makes the analysis of art markets difficult beside price estimation based on a highly subjective interpretation of quality and the above-mentioned heterogeneity

[6] Author, *Global art markets*, Final paper, Central European University, 2014.
[7] A. C. Worthington and H. Higgs, "A Note on Financial Risk, Return and Asset Pricing in Australian Modern and Contemporary Art", *Journal of Cultural Economics*, 30, no. 3 (March 2006): 73-84.

of art as subject of trade is the infrequency of trading itself that will be analyzed in detail in Chapter 3.[8]

The mobility and worldwide circulation of artworks is a historical phenomenon, however liquidity is what gives the major difference between art and other financial markets. Its relative illiquidity - especially if the object is not securitized - is based on the complexity of the process of trading between buyers and sellers, and the high transaction costs respected to other markets.[9] Additionally, since less buyers are present, the number of unsold works is also higher which seriously affect prices that is a possible source of risk for investors. However, overall long-term benefits of investing in art discussed in chapter 4 overcome these disadvantages.[10]

2.3 The Global Network of Art Trade

In this section, a brief overview of the most important art markets worldwide is provided taking into consideration the constantly transforming global economic system. Undoubtedly, art markets form a global network of highly interrelated economies. During its historical evolution, art dealing has become a sophisticated complexity linking culture and business together integrated to the larger, cross-border macroeconomic environment. It is not separable from other financial markets and is also defined by the actual economic situation as well as art trends of different periods. It is also important to note that art markets are in constant dilatation, especially from the second half of the 20th century. The entrance of design and photography to contemporary art markets from the 50s and the conceptual expansion of

[8] Jiangping Mei and Michael Moses, "Art as an Investment and the Underperformance of Masterpieces", *American Economic Review*, 92, no.5 (2002): 1656-1668.
[9] Artemundi Global Fund, *Liquidity in the art market*, accessed 10/05/2015, http://artemundiglobalfund.com/wp-content/uploads/2015/01/Liquidity-in-the-art-market-FINAL.pdf.
[10] R.A.J. Campbell, *Art as a Financial Investment*, (Erasmus Univ., Rotterdam, Maastricht Univ., 2007), 78.

the notion of "art" itself are only a few of the examples to the dynamic evolution beside geographical expansion.[11]

Art market centers during history have always followed global financial changes and were shaped by drifts of wealth and power.[12] Beside the old traditional epicenters of the industry, the 21th century has brought the appearance of new powerful markets. Globalization, industrial and technological developments created a global, extended circuit of artworks throughout an international network of trade. Today, art markets have become a significant sector of national economies and finance in developed capitalist countries. Moreover, in the Third World as well, the importance of art dealing is rapidly growing. Although art trade is a global business of international dimensions, geographically, there are some clearly distinguished areas where transactions and goods are concentrated. Especially focusing on the changes of the international art market map, in what follows, I examine the main art markets and place the three examined countries (France, Italy, Hungary) in the network.

In the 21th century, multinational corporations define the art market network shifting the stress from local, domestic enterprises to independent investors, collectors as well as auction houses and franchise galleries of global scale. Based on the most recent (2014) economic analysis, sales at auction houses represent the largest part of transactions with €22.5 billions.[13] The whole global market is dominated by two multinational corporations: Christie's and Sotheby's. The two art brokeries originally from London are centered in New York, Beijing, Hong Kong, Paris, Geneva and Doha - just to mention the most powerful art business centers of the world. Holding different departments for each artistic movement and financial sectors through risk management to valuation is indispensible at this level. From historical auction houses founded in the end of the 18th century, they have been transformed to

[11] Jean-Marie Schmitt and Antonia Dubrulle, *Le marché de l'art* (Paris: La documentation Française, 2014), 16.
[12] Clare McAndrew, *Fine Art and High Finance: Expert Advice on the Economics of Ownership*, (New York: Bloomberg Press, 2010), 44-45.
[13] Clare McAndrew, *Global Art Market Nears Pre-Recession Boom Level as American Sales Soar*, (Maastricht: Tefaf Art Market Report, 2014).

multinational firms with annual revenue of $831.8 million approximately. These auction houses have the highest commission rates and prices of contemporary paintings in general and without any doubt, this data represents the financial power of fine art.[14] At third place, we find the Beijing Poly International Auction, the China Guardian Auctions and the American Heritage Auction; the reason of this kind of concentration of the industry is discussed below.[15]

In the 30s, the cultural center moved from Paris to London and later to New York where a truly capitalist system of art dealing has been developed based on the implantation of the traditional British system of big auctioneers and galleries. Thus, capitalism is the basic requirement of properly functioning markets of international dimensions. Generally, the highest priced contemporary paintings are sold in the US and in 2013, sales in the country increased by 25% in value.[16] It means that the United States is still the most important center of art trade regarding the value of artworks traded, although in terms of quantitative number of transactions, it has been surpassed by China since the beginning of the financial crisis. The global monetary system has also an impact in defining the US as the leader of the sector; the unity of global art markets, the dollar followed by the English pound contributes also to these markets dominance. Another factor that helps the promotion of the American art market is the low taxation in import and export of works and the liberal governmental policy toward large dealers.[17]

In China and Hong Kong, by 2011, the domestic art market has become the fastest growing and most potential one in terms of national and international transactions in the same time. At a global scale, it was the second largest in terms of value after the US in 2013 with

[14] Sotheby's official home page, accessed: December 29, 2014, http://www.sothebys.com/en.html.
[15] Jean-Marie Schmitt and Antonia Dubrulle, *Le marché de l'art*, (Paris: La documentation Française, 2014), 31-32.
[16] Ibid. p. 33.
[17] Clare McAndrew, *Fine Art and High Finance: Expert Advice on the Economics of Ownership*, (New York: Bloomberg Press, 2010), 172-173.

€11.5 billion of sales, furthermore, auction sales in the same year increased by 8%.[18] The rapid growth and hegemony of China attained during the financial crisis makes it to be by far the fastest growing market in art economy. The incredible growth of the country's role in the international art market has its roots in the beginning of the 2000s and most importantly, during the financial crisis, art centers from the US and London moved to mainly Shanghai, Beijing and Hong Kong. The economic boom during the global economic downturn from 2007 is due to the fact that the country was not significantly affected by the crisis. This fact also reflects the overall economic growth of the country. In addition, the formation of a new, wealthy social class of entrepreneurs and collectors provided a base for art investment. For these reasons, approximately since the end of 2008 China has a leading role in art trade characterized by rapid growth during the peak years of the financial crisis.[19]

Concerning Europe, one cannot talk about a truly common and integrated European art market, but rather about an atomic market driven by a few centers. The UK is by far the leading country of the sector that obliges us to separate the study of the EU market into states. At the end of the 18th century, from the birth of international art trade in its modern meaning, in the United Kingdom all necessary conditions for the birth of a strong art market could be found: industrial revolution, capitalism and the existence of a middle class with purchasing power. During the 19th and 20th century, London retained its hegemonic role and until today is considered as one of the most expanded and sophistically regularized industries with 20% of the world's art trade share prior to the crisis.[20] British art market shows a constant linear path of development and despite the entrance of emerging new markets to the international networks, is still the center and homeland of traditional art dealing.

[18] Dr Clare McAndrew, *The Global Art Market with a Focus on the US and China,* TEFAF – Maastricht Art Market Report, (Maastricht:The European Fine Art Foundation, 2013), 5-7.
[19] Dr Clare McAndrew, *The Global Art Market with a Focus on the US and China,* TEFAF – Maastricht Art Market Report, (Maastricht:The European Fine Art Foundation, 2013), 8.
[20] Edited by James Goodwin, *The international art markets - The essential guide for collectors and investors,* (Geneva: Pastor-Genève, 2008), 10.

2.4 The French Art Market

On a historical scale, at the time of the formation of art markets in the late 18th century, France was the most significant country beside the UK in terms of art trade and Italy was considered as the primary source of European artworks sold in the two former centers.[21] France's leading role was maintained until the second half of the 20th century when the decrease of the historical power of French art trade has gradually started. This phenomenon is mostly due to strict fiscal regulations, taxation system and copyright law as results of the strong intervention of the state in the creative industry sector.[22] The hegemony of the French market considered as the center of traditional way of art trade beside London permanently influenced the European market by introducing a new system at the beginning of the 20th century. Art dealers and artist signed a contract on giving all of their work to the dealer who provided a fix salary in exchange. Although, this strategy promoted art trade in the country until the 1960s when the center has definitively moved from Europe to New York.[23]

The heavily institutionalized character of art trade, which is also true for small European art markets in general, is definitely a barrier in front of international growth. Following the explosion of the speculative bubble in the end of the 80s, the French art market declined in the beginning of the 90s and came to third place after the US, UK. Later, with the arrival of 2000, it was quickly surpassed by the emerging Chinese market as well. As a consequence, on a global scale, the role of France has become less present and moved more toward the margin composing 5% of the global market in 2014.[24]

The French case reflects in the same time the situation within the whole European Union - with the exception of the United Kingdom - where the number of enterprises in art trade is still the double than in the entire continent. According to the most recent analysis on

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[21] Clare McAndrew, *Fine Art and High Finance: Expert Advice on the Economics of Ownership*, (New York: Bloomberg Press, 2010), 3-6.
[22] Jean-Marie Schmitt and Antonia Dubrulle, *Le marché de l'art*, La documentation Française, Paris, 2014, p. 20.
[23] Ibid., 55.
[24] Ibid., 79.

transaction in the art market, the European Union is the most stagnant region with sales falling by 2% in 2013 as a result of the strict regulatory system of the Union on the free circulation of cultural goods. Also, in comparison to lately emerged modern capitalist art markets like the Chinese or the American one, the continent is still similar to a more traditional network of artisans based on mercantilist economic traditions.[25]

2.5 The Italian Art Market

Although the enormous potential of the Italian market in terms of classical as well as contemporary art, it remains less relevant beside the already mentioned centers. The rigorously protectionist market economy and just like in France, the strict legislation system concerning art trade causes that Italy gives only 1% of the global market share in 2014 by value and 6% by volume.[26] In fact, the important export market is the major obstacle in front of domestic growth and Italy cannot significantly profit from the growing international interest in its cultural products. The market remains relatively small, domestic sales stagnated after the crisis, while the export of artwork huge. Protectionism manifested in strict regulation on the export of classical pieces of art makes objects to drop by its value constantly.[27] On the other hand, contemporary art is still a slightly more liberally regulated market, yet there is a lack of interest toward the sector compared to classical art. As we see, market regulations and subjective interest in certain artistic periods mean both a significant impact on the development of the domestic Italian art market. As it is going to be developed in the next

[25] Edited by S. Janssen, M. Halbertsma, T. Ijdens, K. Ernst, *Trends and strategies in the arts and cultural industries*, Barjesteh van Waalwijk van Doorn & Co's Uitgeversmaatschappij, Rotterdam, 2001, p. 65-69.

[26] Dr Clare McAndrew, *The Global Art Market with a Focus on the US and China,* TEFAF – Maastricht Art Market Report, (Maastricht: The European Fine Art Foundation, 2013).

[27] "National treasures" and artworks older than 50 years cannot be sold on an international market without official permission in countries where resale right is implemented according to the European Commission, *Directive 2001/84/E*, http://ec.europa.eu/internal_market/copyright/resale-right/index_en.htm, accessed: 28/04/2015.

chapter, the financial crisis had also different level of influence on national economies and therefore on the art market as well.[28]

2.6 The Hungarian Art Market

Where to place the Hungarian art market in a European context? At the turning of the 20th century, art was a popular and safe way to invest money of the aristocracy and the developing middle class. Before the communist area art trade was flourishing in Budapest, a truly European cultural center. With the arrival of the regime, art trade fell back for 50 years and consequently, it could not catch up with Western art dealing. Since the mid-80s, we can notice a "cultural explosion" during which galleries of national importance appeared in high number. After the democratic transformation, the consequent privatization and multinationalization, private companies have become mecenants of contemporary art following Western trends and investments in art have started to grow rapidly. In other words, the political and social change rendered possible the flourishing of contemporary art trade. The period from the late 80s to the mid-2000s was a short period of rapid development that was undermined by the arrival of the financial crisis.[29]

The Hungarian art market today is considered to be a smaller market that is nevertheless the most important in terms of volume in the Central-European region. It is characterized by a less international and industrialized way of trading with a system similar to the old "corporatism" that is due to its late emergence and the current economic situation of the country. Art as an asset or security has only appeared in the late 30 years. Since less capital is invested in the market than in the other two countries subject of the analysis, the Hungarian

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[28] Dr Clare McAndrew, *The Global Art Market with a Focus on the US and China, TEFAF – Maastrich art market report*, The European Fine Art Foundation, 2014, p 15-16.
[29] Interview with Tamás Kieselbach, Director of Kieselbach Gallery, Budapest, 2014, accessed: 12/05/2015 http://hvg.hu/kultura/20141130_Mi_az_a_kortars_galeria.

art market is less likely to be manipulated. Also, due to its small size, price variation is less important as well.[30]

Joining the European Union in 2004 did not significantly change the situation of the Hungarian art market. As a smaller Central-European markets, it still has many difficulties to surpass in order to be acknowledged by the larger international community. Beside the lack of capital that could boost the market, participants coming from peripheral countries have to face subjective elements as well, such as the connection between capital investment and reputation of an artist. Beside the disadvantageous national economic situation, cultural barriers have to be overcome as well in order to ease the flow of artworks and capital within the European Union. In this sense, the development of the Hungarian art market could strongly contribute to the building of a less fragmented European market.[31]

Just like in the case of Italy, national economic policy determines the development of internationality in art trade. Undoubtedly, trade restrictions are necessary for an effective cultural heritage protection, but in the same time, restrictions coming from trade protectionism are also a blockage in front of the Hungarian art market development. An important number of works are considered to be part of the national heritage, therefore they cannot be object of international trade. Consequently, although Hungary has the cultural wealth that would make possible to be a well-recognized representative of the Central-European art world, it still needs to open up economically in order to be fully integrated to the European cross-border trade of artworks.[32]

[30] Interview with Gábor Einspach, Director of Kieselbach Gallery, Budapest, made by the author, 04/05/2015.
[31] Interview with Tamás Kieselbach, Director of Kieselbach Gallery, Budapest, 2014, accessed: 12/05/2015 http://hvg.hu/kultura/20141130_Mi_az_a_kortars_galeria.
[32] Patricia Fischer, "Hungary's Art Market After 2008: Playing safe", Interview with Gábor Einspach, Director of Kieselbach Gallery, Budapest, *Budapest Business Journal*, 2012, http://www.bbj.hu/life/hungarys-art-market-after-2008-playing-safe_62262, accessed: 17/05/2015.

CHAPTER 3: THE 2008 FINANCIAL CRISIS AND ITS IMPACT ON THE ART MARKET

3.1 *The Financial Crisis in Europe*

The recent dramatic economic events in the European Union have brought radical changes in international trade. Firstly, a brief overview of happenings in the financial sector is necessary to compare them to the changes in the cultural sector from 2007 onwards. Thereafter, the reactions of art markets in specific is going to be analyzed based on its connection to global economy in order to be able to define the similarities as well as differences that characterize them respected to other financial markets. The European financial crash had its starting point in the American subprime crisis during which banks lost their assets due to excessive insecuritized lendings. Soon, the financial crisis has spread worldwide and became an economic crisis. The transmission was caused from the one hand to by fact that banks did not easily give loans to debtors due to the difficulty to get short-term financing. On the other hand, an already frozen economic environment both from the part of households and firms contributed to the explosion of a global economic crisis that reached the art market as well.[33]

As a consequence, investments and consumptions have seriously fallen and the crisis arrived to its peak between August 2008 and February 2009. Concerning specifically the Eurozone, the economic recession has turned to be a sovereign debt crisis due basically to the increase of public debt from the part of national governments that attempted to decrease the negative effects of the economic downturn and tried to save their banks from failure. Tax reductions were followed by the cut of public spending and governments stepped in by adopting expansive fiscal policy reforms. The austerity measures implemented by the indebted European countries was worsen by the fact that these states o had already an

[33] Laurent Weill, *The Financial Crisis and Debt Crisis in Europe: A Brief Overview*, University of Strasbourg, 1.

important public deficit prior to the 2000s. In conclusion, the already existent public debt and the additional budgetary deficit by the arrival of the financial crisis have provoked the European sovereign debt crisis.

Since governments were dependent from financial markets to finance their new borrowings, the switch from financial to economic crisis was unavoidable. Investors had no trust to lend money for countries, therefore, governments were unable to repay their seriously accumulated debts. The final event in the formation of the European debt crisis was the increase of interest rates of loans provided by financial markets to countries in difficulty. The lack of confidence in investing caused the reduction of public deficit which was in contradiction with the increase of taxes that resulted in a general public hostility towards austerity measures. Furthermore, external pressures had an important role in the rapid global spreading of the crisis. When exchange rate depreciation as well as lack of reserves occurred in the same time worldwide, independently from the level of income and the level of restriction on capital flows, the Great Recession has arrived in most European states.

France was one of the developed countries that fell later in 2009 and by the second quarter of the crisis, the country's GDP growth rate was -1.7%. Similarly to other European countries, unemployment caused a seriously problem growing to 8.8% in the same year (2009). The basic issue of the French economy – the second largest in the Eurozone – is the deterioration in competitiveness, although its debts and deficits are still less important than that of the GIIPS countries. We have to note that traditionally, sectors with a high production costs such as car, clothing and luxury industry give the basis of the French industry. Obviously we are talking about sectors that are extremely sensitive to market fluctuations and that cannot compete with cheap goods produced in Asian or Eastern-European countries. As a result, the crisis also brought a significant decline of manufacturing as well as supporting services and a sharp fall of export could be observed as well. While the private economy declined seriously, government spending did not stop to increase. French foreign trade shows well the economic situation by imports exceeding by far exports and by the end of the crisis, in 2014, the share of France in world's export is only 2.7%.[34]

Italy had to face the 2007-8 events already having long-time structural problems of its political instability, corruption, poor economic growth rate and aging population. Although fiscal deficit was lower than in many other European countries, the main reasons for the liquidity crisis derives from the gradual accumulation of debt. The public sector debt was 115% of the GDP in 2009 and grew as high as 126% three years later (2012).[35] The structural problems of the Italian economy result that even if the country did not go bankrupt, there is no lender of last resort. As a consequence, the Italian sovereign debt crisis was as part of the Southern-European domino fall and Italy's debt ratio became second in the Eurozone after Greece. The economic growth stagnated, productivity started to decrease and by 2008, car sales for example, that meant the leading sector of the Italian industry, have fallen by 20%.[36]

In the same year (2008), the Hungarian forint dropped back by 10% and the government was constraint to ask for bailout from the International Monetary Found. The major reason for which the Hungarian economy was seriously affected by the crash is the fact that the country has already been highly dependent on foreign capital prior to the crisis on the one hand. On the other hand, Hungary was also one of the EU countries to have the biggest public deficit.[37] A decade before the financial crisis, Hungary was regarded as the forerunner of market-oriented economic transition in the Central-European post-soviet bloc gradually liberalizing its economy since the 1980s. In the mid-2000s, the years prior to the crisis, however, the

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[34] Shawn Tully, "The Eurozone crisis no one is talking about: France is in free fall,", *Fortune*, (2013), http://fortune.com/2013/01/09/the-euro-crisis-no-one-is-talking-about-france-is-in-free-fall/, accessed: 08/05/2015.

[35] Data taken from the World Bank database, http://data.worldbank.org/indicator/GC.DOD.TOTL.GD.ZS/countries, accessed: 22/05/2015

[36] "Reforms Key to Italy's Efforts to Outgrow Crisis", *IMF Survey Magazine*, (2012), http://www.imf.org/external/pubs/ft/survey/so/2012/car071012a.htm, accessed: 30/04/2015.

[37] Akos Valentinyi, *The Hungarian crisis*, VOX CEPR's Policy Portal, (2012), http://www.voxeu.org/article/hungarian-crisis, accessed: 15/05/2015.

accumulation of a large external debt made the country more and more vulnerable to global economic volatility. With an extremely open economy, Hungary was susceptible to world economic fluctuations. The high level of current account deficit and household as well as corporate debt in foreign currencies has also contributed to the formation of the crisis. As a consequence, Hungary was the country hit the strongest by the crash in the Central-European region and by the end of 2011, Hungary was asking the IMF, World Bank and the EU for bailout.[38]

To conclude, the European Great Recession had its roots in the United States and has spread quickly starting by Ireland as the first country to fall in 2007 and infected members of the Union by 2008. The crisis developed rapidly and has turned to a global economic shock with European bank failures and consequent financial as well as commodity market declines.[39] As stock markets fell worldwide, general shrank of economic activity and private consumptions occurred. Global financial markets were at the center of the crisis which at the beginning was a mortgage crisis in the US. Finally, due to a high number of Western European banks having mortgage-backed securities the European sovereign debt crisis arrived to its peak in 2008.[40]

3.2 The Art Market in Crisis

How global art markets were affected by the crisis in the larger economic aspect and how could they overcome it? Knowing that art markets are in direct connection with the world's financial ups and downs, their vulnerability has become especially visible from 2007 onwards. After the important increase of prices since 2000, from the peak year of the value growth in 2007, the number of transactions followed the global depression and contemporary

[38] Akos Valentinyi, *The Hungarian crisis*, VOX CEPR's Policy Portal, 2012, accessed: 15/05/2015, http://www.voxeu.org/article/hungarian-crisis.
[39] Floyd Norris, "United Panic", *The New York Times*, (2008), accessed: 15/05/2015.
[40] Edited by Maurice Obstfeld, Dongchul Cho and Andrew Mason, *Global Economic Crisis – Impacts, Transmission and Recovery*, (Cheltenham: Edward Elgar, 2012), 81-95.

art sales dropped by 47% between 2007 and 2009 as **Figure 1** indicates.[41] It is thus clear that the art market showed similar movements to that of global economy, nevertheless I assume that core differences in the functioning of this special economic sector enhanced opposite economic movements as well in the cultural industry.

Figure 1 – Sales in the Global Art Market 1990-2011

(Source: www.arteconomics.com, accessed: 06/05/2015.)

In general terms, we have seen that international trade shows a sharp decline as a result of the financial market crisis. Confidence index in the art market 2008 showed a clear decline right after the Lehman Brother's collapse in September 2008. In November 2008 – which month is also called the Black November of art auctions – investments in contemporary paintings reached its lowest point ever and confidence index in the art market dropped back to -26.[42] After the art business cycle peaked in 2007 the contraction of the art market has become clear when in November 2008, Christie's and Sotheby's auction sales were less than the half

[41] Suhail Malik, *A Boom Without End? Liquidity, Critique and the Art Market*, Art Market Monitor, (August 2007), www.artmarketmonitor.com, accessed: 15/05/2015.
[42] *2008 Art Market Tendencies*, (2009), 13, www.artprice.com, accessed: 20/05/2015.

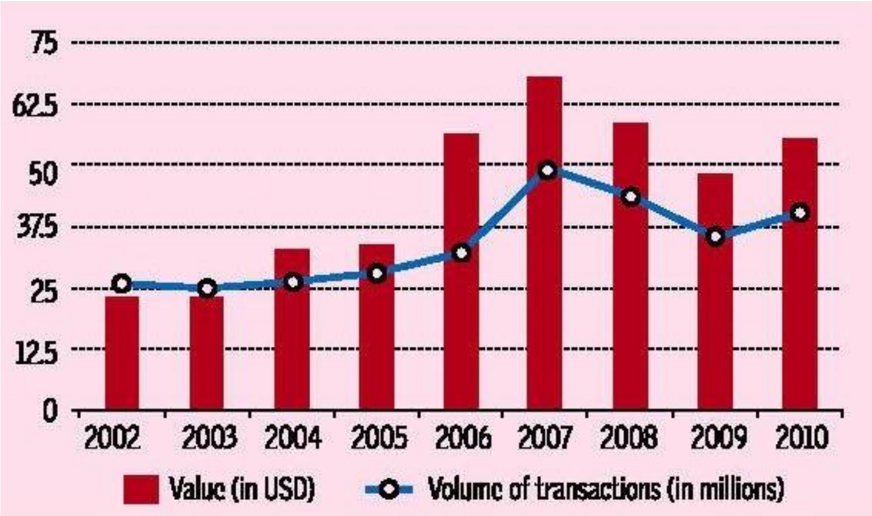
of that of the previous year. In numbers, this descent means $803.3 million in the month in question compared to $1.75 billion the same month in 2007.[43]

The connection that makes art market to follow the booms and bust of the economy derives from the stock market changes generating capital which potentially supports art trade. In the three countries examined, one can discover a common line between 2007 and 2009 concerning the art market boom and following bust, however the country' specific character had an important influence on the deepness of the recession and its consequences as well.

I assume that art markets can be easily subject of economic bubbles since there is no fundamental pricing model for artworks. In the decade prior to the financial crash, art was considered as a popular investment in the global wealth boom. Art, being a less volatile investment, less dependent on financial markets as well, turned to be a safer asset then financial liabilities or stocks for instance. Also, global scale social transformation in countries during the 2008-2009 recession has also contributed to the formation of the art market bubble. A new class of wealthy investors mostly from Russia and China saw in art a certain "shelter" for their capital. **Figure 2** about sales between 2002 and 2010 clearly indicates 2007 as the peak year both in terms of value and volume of transactions. In the year prior to the escalation of the crisis, there were 50 million transactions in the art market at a global scale which is the highest number ever measured, the double of the number of deals and also 2/3 of the value of transactions made in 2002.[44]

[43] Milton Esterow, "How to Buy in 2009", *ARTnews*, (January 2009), http://www.artnews.com/2009/03/01/how-to-buy-in-2009/, accessed: 30/04/2015.
[44] Dr. Clare McAndrew, *TEFAF Art Market Report 2008*, (Maastricht: The European Fine Art Foundation, 2008), 13.

Figure 2 – Value and volume of transactions at the global art market, 2002 - 2010



(Source: www.artmarketmonitor.com, accessed: 30/04/2015.)

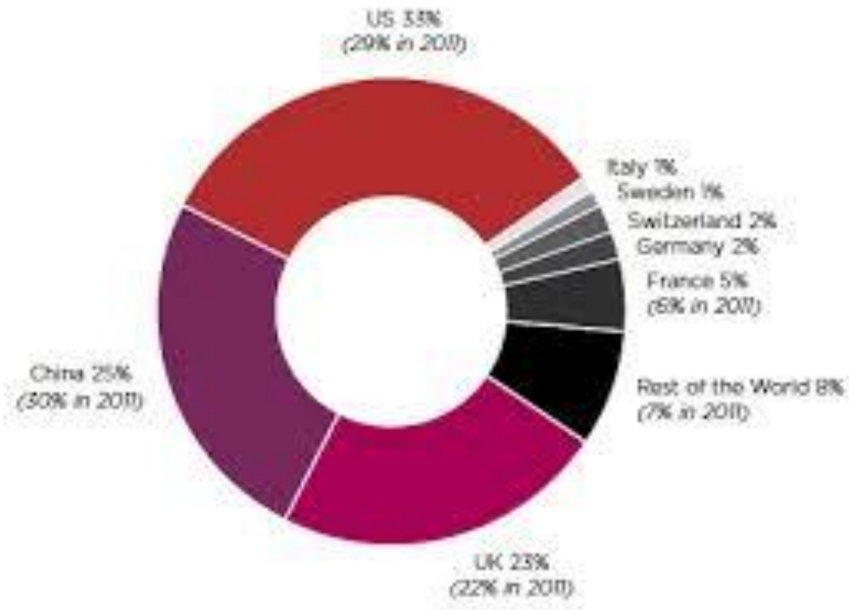
3.3 The Crisis and the French Art Market

In part due to the financial crisis, the French art market has become secondary in the map of the most important art trade centers. Apart from the already mentioned reasons that contributed to the decrease in importance of the French market such as the capital-needed luxury industries and protectionist taxation system, two other factors play an important role in its falling. French art trade has become less important in the international network due to the American and Chinese breakthrough and also to the lack of government support in artistic production. However, exactly the recent marginalization of the market – France gives only 5% of the global art trade share in 2014 – is what causes a less serious impact of the crisis respected to other states. (See **Figure 3** about the global art market share by value in 2012.)[45] Since the French cultural industry has become less integrated into the global network then the art market of the United States or the United Kingdom, consequently, it is less exposed to macroeconomic changes and speculative attacks. The Chinese market boom during the crisis

[45] Dr. Clare McAndrew, *The Global Art Market, with a Focus on China and Brazil*, (Maastricht: The European Fine Art Foundation, 2013), 20-21.

finally had an important role in moderating the impact of the crisis on European markets by being the first investor of French contemporary as well as classical art.[46]

Figure 3 – Global Art Market Share in 2012



(Source: The European Fine Art Foundation, www.tefaf.com, accessed: 12/05/2015.)

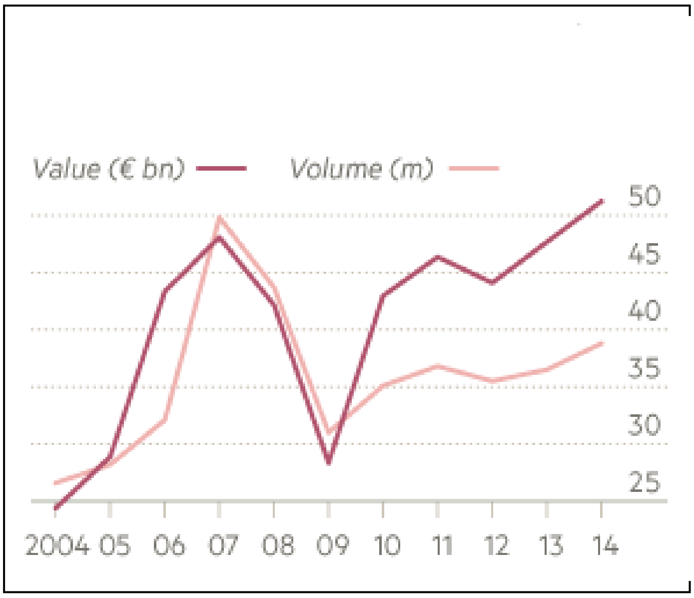
3.4 The Crisis and the Italian Art Market

In light of the financial crisis, it has become clear that the Italian art and antiquities export market seeks structural changes in order to become a competitive sector of national economy. The strict regulations regarding cultural properties also contributed to the transmission of the traditional Northern-Italian art market center of the continent to London and New York. Today, respected to the latter art market centers, the value of the Italian art market is only a small portion of that of the United Kingdom or the United States according to **Figure 4** about global fine art auction shares by volume in 2015. The weakness of the Italian market relies on the so-called resale rights law according to which an object designated as

[46] Jean-Marie Schmitt and Antonia Dubrulle, *Le marché de l'art* (Paris: La documentation Française, 2014), 57-60.

“natural treasure” cannot leave the state for more than 18 month without official approval and the permission is also required if the artwork is over 50 years of age.[47]

Figure 4 – Value and Volume of Transactions in the Global Art Market 2004-2014



(Source: The European Fine Art Foundation, www.tefaf.com, accessed: 12/05/2015.)

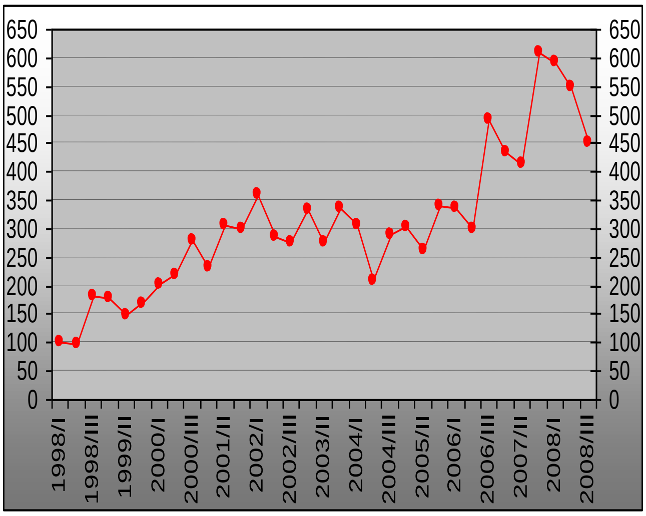
Therefore, contrary to the majority of EU countries, Italy's definition of national treasure is far significantly more expansive and protection of artwork is much stricter. The preservation of Italian artworks is thus remarkably effective; however, by hampering the free market, it has a negative impact on the growth of the domestic art market. In addition, the hegemony of multinationals such as Christie’s and Sotheby’s also limits the growth of national businesses in art dealing that was one of the actors having a strong contribution to the worsening of the economic crisis in the Italian art market.[48]

[47] “Report from the European Commission to the European Parliament, the Council and the European Economic and Social Committee on the Implementation of the Resale Right Directive”, (Brussels: European Commission, 2011), http://ec.europa.eu/internal_market/copyright/docs/resale/report_en.pdf, accessed: 04/05/2015.
[48] Luca Bortolotti, *Intervista a Maria Cristina Corsini sul Mercato dell'arte*, Art-News, 2010. http://www.news-art.it/news/intervista-a-maria-cristina-corsini-sul-mercato-dell-arte.html,Accessed: 12/05/2015.

3.5 The Crisis and the Hungarian Art Market

The sudden economic crash has seriously affected the already vulnerable ad unpredictable Hungarian art market. Collectors who estimated their artworks to value the multiple of the actual price in the future were discouraged by the events of 2007-8. Art prices have increased following the general tendency in art markets; according to **Figure 5** representing the price development of the Hungarian Art Index released by the Central Bank of Hungary in the period discussed, prices has been 6 times higher in 2008 then 10 years before.[49] The contemporary art market showed to be more affected than the market of antiques, therefore, auction houses had to adjust their collections to sell avoiding artworks considered "risky" during the crisis. As a consequence, an important result of the economic crash directly on the domestic art trade is the adjustment to the economic climate according to which marketability came before quality in order to be compatible with future needs.[50]

Figure 5 – The price development of the Hungarian Art Index, 1998 - 2008



(Source: Lajos Golovics and David Rácz, Art – Investment – Analysis, (2011), Central Bank of Hungary)

[49]Lajos Golovics and David Rácz, *Art – Investment – Analysis*, (2011), Central Bank of Hungary.
[50] Interview with Tamás Kieselbach, Director of Kieselbach Gallery, Budapest, 2014, http://hvg.hu/kultura/20141130_Mi_az_a_kortars_galeria, accessed: 12/05/2015.

Thus, the parallel movement of the art market and the country's economy is visible in the general impoverishments and consequent decrease of investments in the art market in 2008-2009. Since Hungary was more seriously affected by the economic downturn than Western economies as discussed above, the art market has completely frozen in the peak years of the crisis.

Not only in the case of Hungary, but also in general terms, I claim that by lowering their expectations, the auction houses have supported a market of more affordable works. 79% of sold lots fetched less than €5,000 during the first half of 2009 versus 73% in 2008. The reaction of dealers shows the general tendency of contraction of prices: in the second quarter of 2009, contemporary artworks' prices were reduced to the price level of 2004.[51]

Concluding, after the graduate formation of the art market bubble in the mid-2000 culminated in 2009, the financial bust has spread to global art markets following the fall of the stock market. Nevertheless, as the next chapter discusses, investments in global art markets showed a rapid growth from the second half of 2009. The parallelism in the first phase of the crisis between financial and art markets was rapidly overcame and an opposite movements tendency manifested in art trade for four main reasons according to the findings of the present thesis.

Although the art market remained relatively small, especially due to the fact that deals are generally made between individuals, at the back of the boom, an influx of investment fund appear as a result of the long-term benefits of investing in art.

[51] "Contemporary Art Market 2010/2011", *The Artprice Annual Report*, http://imgpublic.artprice.com/pdf/fiac11en.pdf , accessed: 20/05/2015.

CHAPTER 4: THE RECOVERY OF THE ART MARKET

4.1 Recovery Strategies from the European Sovereign Debt Crisis

According to the assumption of the thesis, we can draw a certain "common path" concerning the immediate reactions and the consequent changes in the political and social scene of the countries affected by the economic depression. The subprime crisis has turned to be a sovereign debt crisis in Europe which has implicated exchange rate adjustment in order to put an end to the decline of international reserves and subsequent implementation of austerity policies followed. The major problem government had to face was the large debt-to-GDP ratio that only increased by the deepening of the recession. Providing bailout packages, the aim of international institutions was firstly, that indebted countries will be able to repay their loans to foreign creditors and also, that the debt crises will not spread to further European states.[52]

The policies to follow and the reforms needed to be taken were rather an imposition on behalf of the European "Troika" – the European Commission, IMF and European Central Bank than independent national political decisions.[53] The common goal of such measures was to avoid domino effect in the Eurozone. The reduction of budget deficit relative to GDP was possible in two major ways. On one hand, by cutting public expenditure and by fiscal reforms introducing higher taxes and on the other hand, the deregularization of financial markets as well as that of the banking sector served as a restriction of national governments' presence.[54]

[52] Nancy Bermeo and Jonas Pontusson, *The Sorrows of Young Euro: The Sovereign Debt Crises of Ireland and Southern Europe,* in *Coping with Crisis, Government Reactions to the Great Recession,* Edited by Klaus Armingeon Lucio Baccaro, (New York: Russel Sage Foundation, 2012), 120.
[53] Ibid, 123.
[54] Ibid,130.

4.2 The Recovery of the Art Market and the Role of the State

State-level economic policy decisions have influenced the art market as well, even though we are talking about a relatively small market where most of the transactions are made between individuals. Cutting cultural budget and subsidies was a direct consequence of restriction measures. The insufficient support from the part of governments and the inefficiency of the redistribution of wealth in the cultural sector did not render the recovery of global art markets easier. In fact, the state can be considered more as a regulatory organ of international art trade rather than a direct investor. Obviously, art markets depend on a country's fiscal and juridical system that defines its import-export ratio and the expansion of the black and second-hand market of artworks as well.[55] State regulations, for instance the implementation of the so-called *droit de suite* promote the concentration of the art markets to a few biggest centers. Furthermore, as a tool of protecting national patrimony, I assume that it had a negative effect on the recovery process.

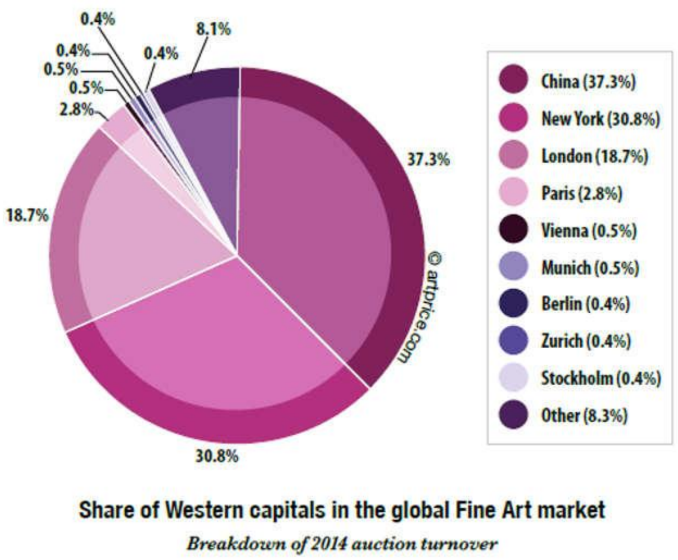
The so-called *droit de suite* also known as resale right, resale royalty or follower-up right has been introduced in 11 countries of the European Union after the *Directive on the Resale Right for the Benefit of the Author of an Original Work of Art* proposed by the European Commission in 2001 was adopted by the Council and the Parliament in 2006. This European Union law gave the possibility to artists to gain profit from their artwork every time it is resold. Since then, many debates have been made concerning the effectiveness and the impacts of the new law on the European art market. Making the European art market more competitive, insuring that sales do not shift outside the European common market and

[55] Clare McAndrew, *Fine Art and High Finance: Expert Advice on the Economics of Ownership*, (New York: Bloomberg Press, 2010), 128.

balancing economic differences between Member States are the possible reasons of the adoption of the law.[56]

From an economic point of view, resale rights introduced in most Members of the European Union are often blamed for the EU art market's loss of share – with the exception of the United Kingdom – in global economy in recent years.[57] The strict regulation on artworks results in a decrease of importance of the EU market at a global scale. The art market of the European Union had a global market share of 37% by value in 2010 and it was worth €43 billion in the same year followed by the US (34%) and the rising China (23%). **Figure 6** represents the EU market's loss of importance in terms of global art market share in 2014: the major European centers constitutes only 13.1% of the total share while the US and China give 68.1%. Although this range underwent important changes after the financial crisis, London and Paris as the two most important European cultural capitals still gives altogether 21,5% of market share in 2014.

Figure 6 – Share of Western Capitals in the Global Fine Art Market in 2014



[56] European Commission official webpage, *Directive 2001/84/E*, The European Single market - Resale Right, http://ec.europa.eu/internal_market/copyright/resale-right/index_en.htm, accessed: 28/04/2015.
[57] Daniel Grant, "'Droit De Suite' Debate Heats Up", *Artnews*, (2012), http://www.artnews.com/2012/01/11/droit-de-suite-debate-heats-up/, accessed: 27/03/2015.

(Source: www.artprice.com, accessed: 26/05/2015)

The economic depression has revealed that art has an important function in modern financial markets in sheltering capital and consequently, creative economy is an industry with increasing economic weight. Apart from the growth due to financial investments in art trade, it guarantees in the same time employment both for investors and artists. Additionally, peripheral services from marketing, tourism, transportation to restoration and insurance are provided by the development of global art markets. Thus, despite the importance of national cultural heritage protection, it is also the governments' interest to support the growth of the art market in accordance with necessary austerity measures.[58]

4.3 Reasons of the Opposite Movements of the Art Market

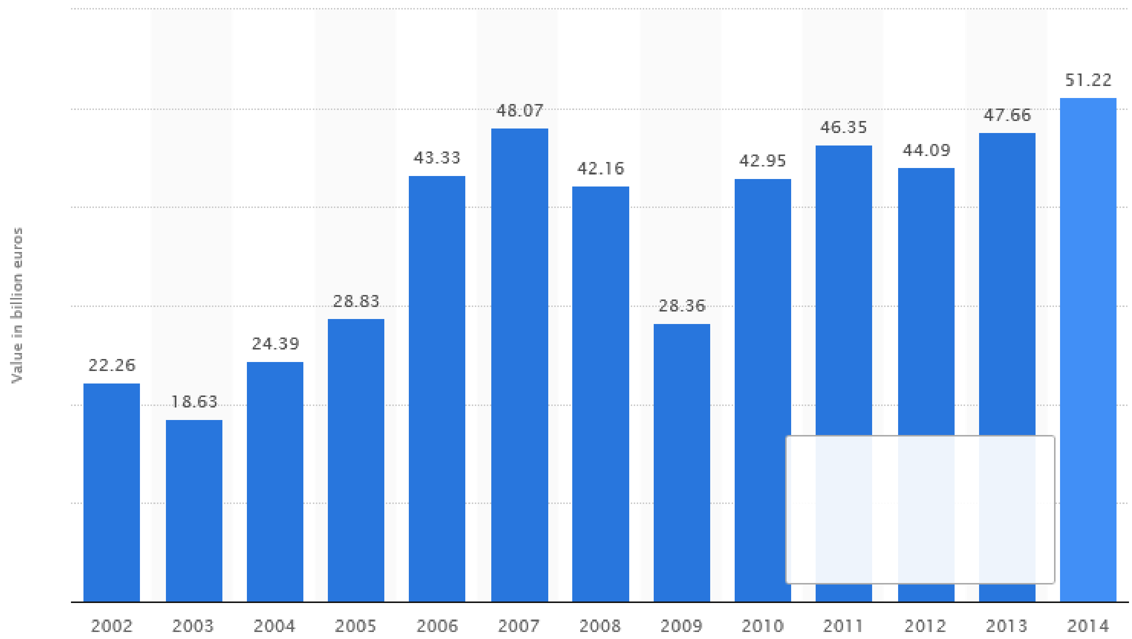
The recent financial crash had a serious impact on art trade as we have seen, however, I believe that instead of crash, one should talk about a temporary recession that manifested firstly by a sharp increase of prices and was followed by the decrease of transactions due to the lack of capital flow to the market. Nevertheless, the recovery phase of the crisis was significantly shorter than in the case of financial markets. According to the main hypothesis of the present work, the phenomenon can be explained by three main arguments. The more and more disconnectedness of art markets from financial markets and its less volatile character, the future return in value of artpieces and furthermore, despite the recession, the appearance of a new class of investors mostly from China, Russia and the emergence of new market centers is a huge boost for the growth of the industry as well.

After the strong signal in 2008, confidence has returned in the following year, when major international art fairs and auction results have showed an increase of transactions from 2009 onwards (see **Figure 7**). What explains the increasing buyings after the bubble as early as the end of 2008? Interestingly, the core period of the financial crisis, from 2008 to 2011

[58] Jean-Marie Schmitt and Antonia Dubrulle, *Le marché de l'art* (Paris: La documentation Française, 2014), 12.

was marked by a rapid growth in art markets. In spite of the financial crisis, the massive growth of sales in value and volume and the increasing prices in fine art – majorly due to the Chinese market growth – show an average stability of the market. As **Figure 8** clearly point out that the speculative bubble of the late 80s early 90s although being less severe, were followed by a significantly slower recovery over the next decade.[59] Already five years after the breaking out of the crash, 2013, is recorded the best year of auctions with over $12 billion in sales and 13000 new records for artists sold their works at auctions around the world.[60]

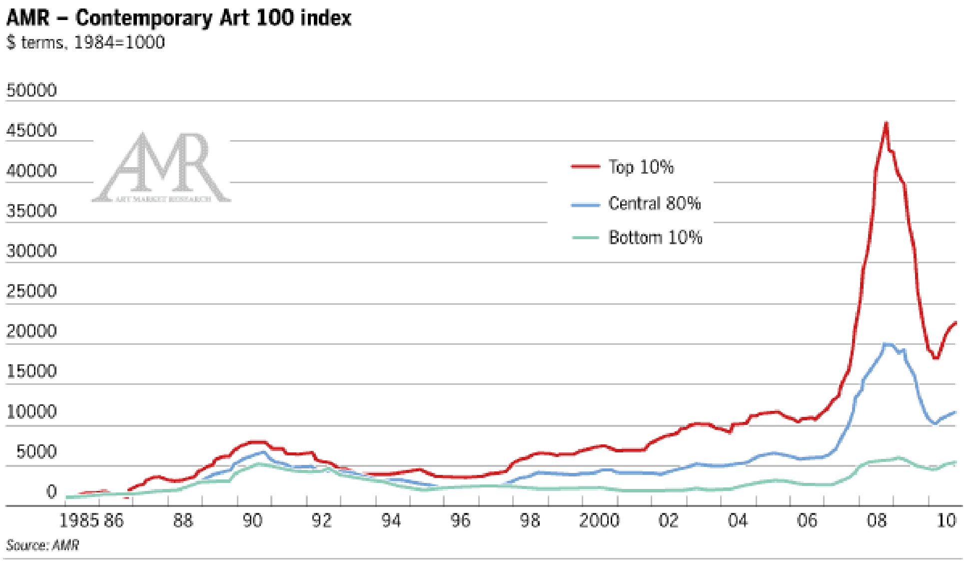
Figure 7 – Value of sales in the global art market, 2002 - 2014



(Source: www.statista.com, Accessed: 27/05/2015)

[59]Jean-Marie Schmitt and Antonia Dubrulle, *Le marché de l'art* (Paris: La documentation Française, 2014), 12.
[60] "Contemporary Art Market 2014", *The Artprice Annual Report*, http://imgpublic.artprice.com/pdf/fiac11en.pdf , accessed: 20/05/2015.

Figure 8 – Contemporary Art Index from 1985 to 2010



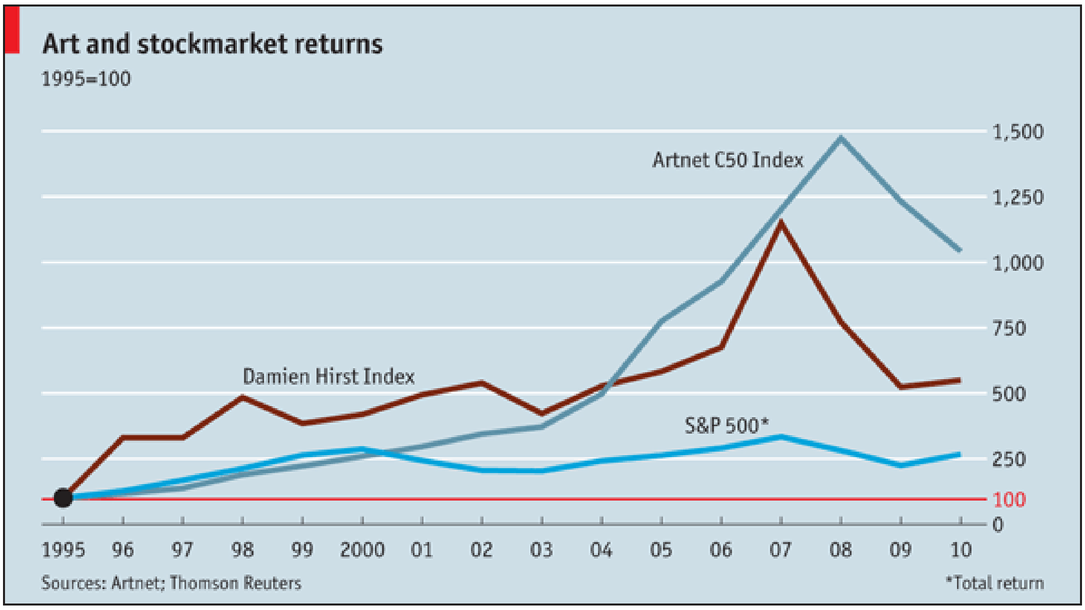
(Source: www.artmarketmonitor.com, Accessed: 27/05/2015)

Measuring the performance of the art market during the financial recession is a challenge not only for the specific characters in its functioning as discussed in Chapter 2, but due to the informality of its structure in terms of often non-regulated exchanges. Since not all galleries and auction houses reveal their sales, final calculations regarding the recovery of the market is made difficult and accordingly, giving exact numbers is impossible because of the lack of transparent pricing. When did the economic upswing start to be seen and what are the main reasons according to which global art markets has recovered faster from the crisis? In what follows, I aim to highlight the connection between the character of art markets considered to be financial markets and their economic growth during the recession due to an increasing number of funds in contemporary art.

4.3.1 Less volatility in the art market

Assuming that art markets are more easily exposed to different speculative tendencies (see Chapter 2), prices are often disconnected from the real economic value of an artwork. The difficulties in pricing, the matching of a monetary value to an artistic object creates the circumstances of bubbles during which the asset traded is not in connection with its real economic value any more.[61] Nevertheless, during the financial crisis, art markets have showed to be less volatile then financial markets. One can notice in **Figure 9** that returns in art market in 2011 are in correlation with that of the stock market, although the volatility is significantly lower.

Figure 9 – Art and Stock Market Returns, 1995 - 2010



(Source: www.artnet.com, Accessed: 25/05/2015)

The more and more disconnectedness of art markets from financial markets is also due to higher illiquidity of the former as asset markets. I assume that its illiquid character is based partly on the relatively small circle of possible buyers and also on the already mentioned complexity of national cultural heritage protection regulatory system. In this regard, trading with a highly liquid asset poses more risks and art as a cultural property being more illiquid keeps its value over time even if the art market is exposed to the general economic recession.

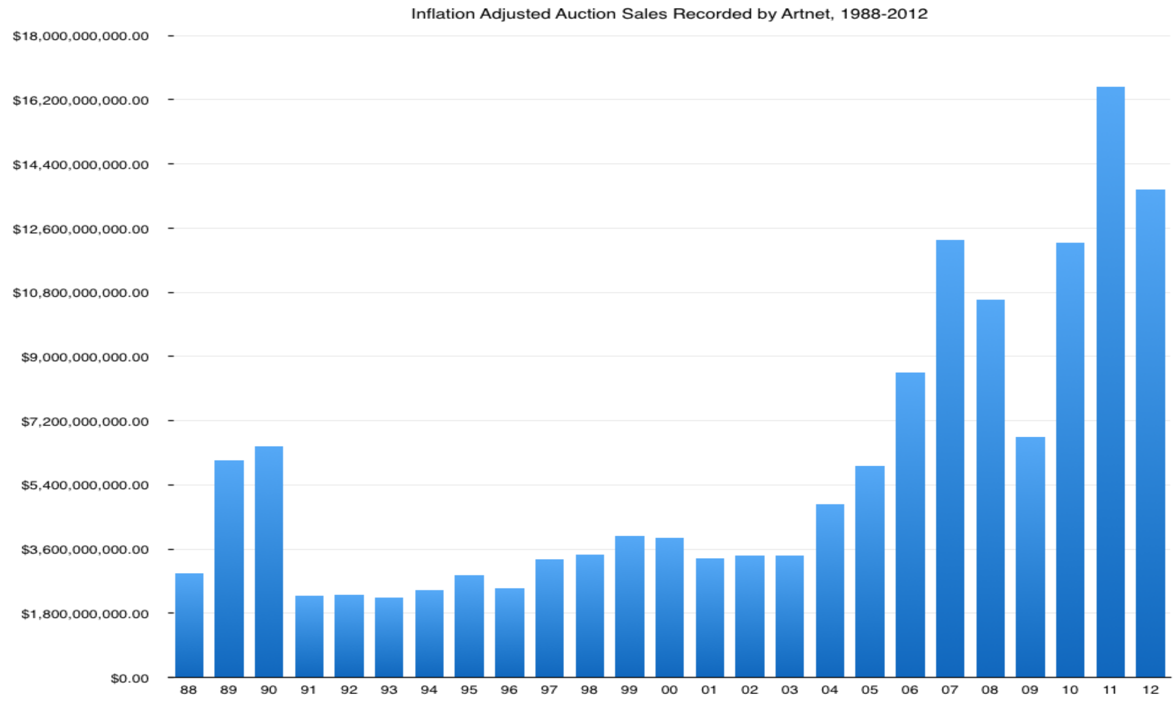
One of the reasons of such a relatively low volatility is firstly the adjustment of prices to inflation as it happened during the crisis. The inflation of the art market consequent to the

[61] Marion Maneker, "How Overheated Is the Art Market? Maybe Not So Much", *Art Market Monitor*, (2013). http://www.artmarketmonitor.com/2013/12/17/more-is-spent-on-art-at-auction-than-ever-before-but-art-shows-some-stability/ , accessed: 25/05/2015.

volumes of money being invested to it prior the crash has basically helped to keep prices stable while other markets were still shrinking. Therefore, the less volatile character is one of the elements that promoted the restructure of the art market during the period examined. **Figure 10** and **Figure 11** indicate auction sales and prices adjusted to inflation between 1988 and 2012. Secondly, considering that in the case of art trade transactions are not arranged through banks unlike often in the stock market art markets are less and less dependent from financial markets since the '80s.[62] Although, as the financial crisis also shows, art market trends can be predicted by examining the ups and downs of the stock market, nevertheless I assume that its functioning is less linked to financial markets. Consequently, the high level of instability that characterizes other assets – stocks and shares for instance – is not present in the case of art trade. The figures indicated above (**Figure 9** and **Figure 10**) support the idea that more and more buyers are participating in international art trade and the growing global wealth is invested in fine art in an increasing proportion, especially in artworks that were not necessarily valued nor considered as an asset prior to the crisis.

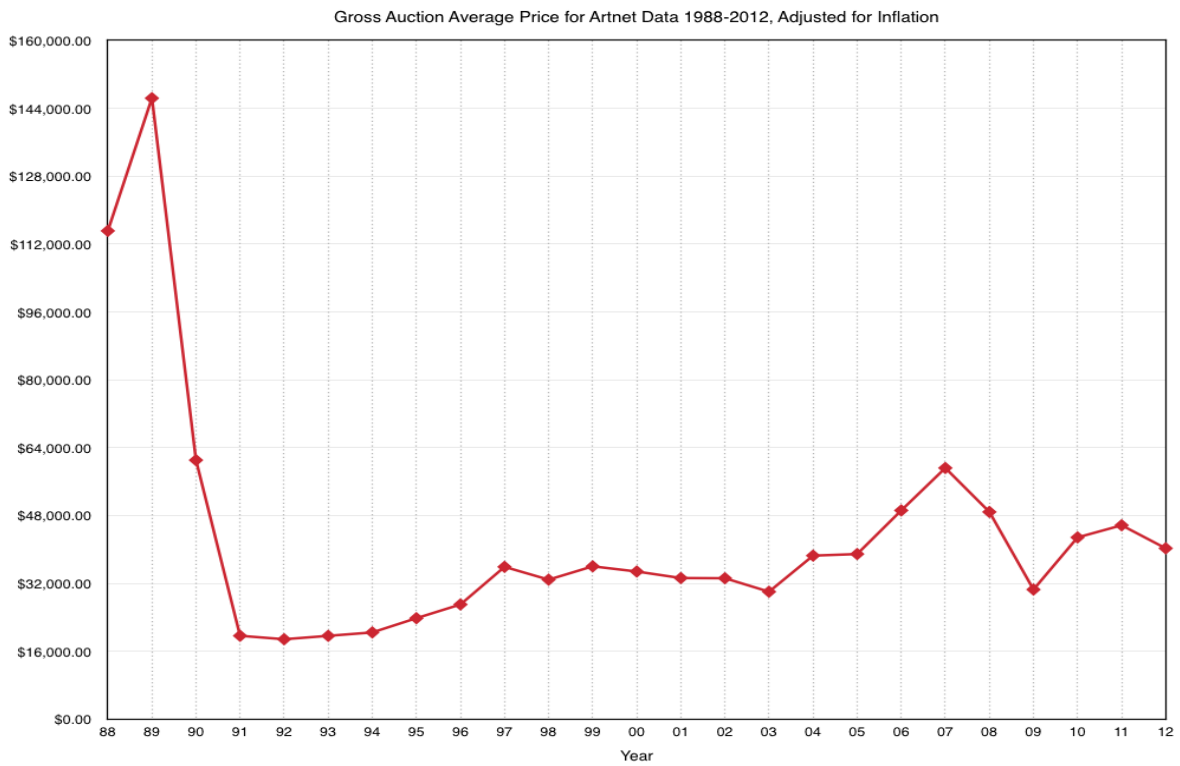
[62] Marion Maneker, "How Overheated Is the Art Market? Maybe Not So Much", *Art Market Monitor*, (2013). http://www.artmarketmonitor.com/2013/12/17/more-is-spent-on-art-at-auction-than-ever-before-but-art-shows-some-stability/ , accessed: 25/05/2015.

Figure 10 – Inflation Adjusted Auction Sales, 1988 - 2012



(Source: www.artnet.com, accessed: 27/05/2015)

Figure 11 – Gross Auction Average Price Adjusted for Inflation, 1988 - 2012



(Source: www.artnet.com, accessed: 27/05/2015)

4.3.2 Artworks as safe investments

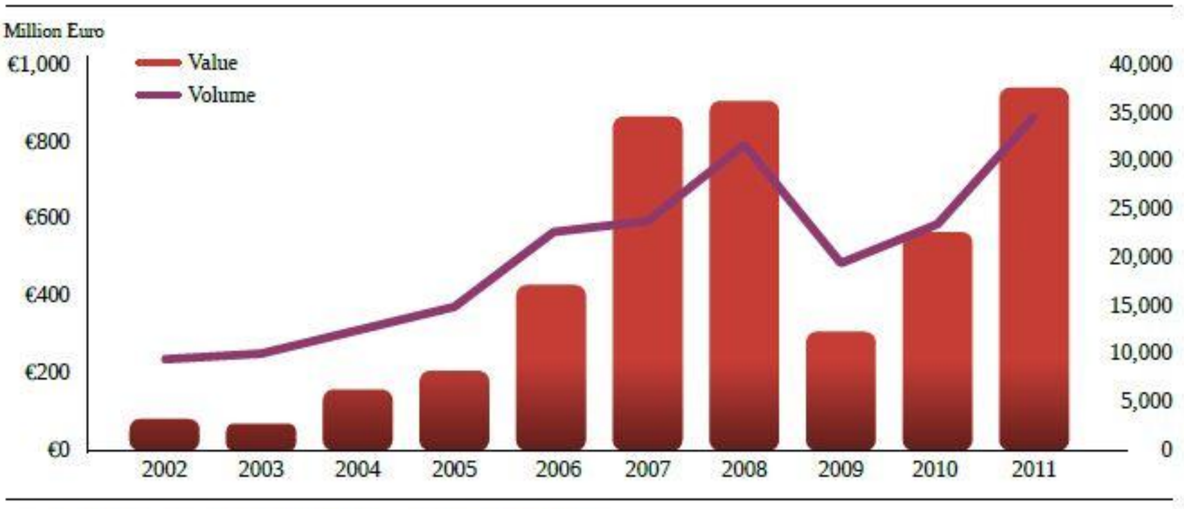
As for the financial risks, art valuation is still fluctuant and varies according to many elements from intern speculation to macroeconomic changes. Trading with cultural goods brings uncertainties because of its dependence on other economic sectors, its mobility and the presence of many abstract characteristics. In addition, juridical and authenticity questions also make transactions fragile. Despite ambiguities in the valuation of an artwork, the number of funds and trusts in art is growing due to the potential return in value during future transactions. Investing in art objects is viewed as a relatively safe financial investment, since it represents a value over time.[63] Considering that art is not reproducible, paintings and other pieces art will always have a certain value.

Since the 70s, investing in art is seen as a tool to fight against inflation.[64] Art trade thus attracts a wide number of clients and relies on huge art galleries in years of economic depression. In this sense, we can say that although art markets are always affected by the current global financial situation, crises are not always a barrier in front of the industry's growth. On the contrary, it is seen as a relatively safe investment and consequently, has a growing buyer base. Investing in cultural goods during crisis draws the attention to the long-term benefits of investing in art considered a particular financial asset.[65] **Figure 12** represents the remarkable growth rate of the contemporary art sector both in terms of value and volume from the end of year 2009.

[63] Dr Clare McAndrew, *The Global Art Market with a Focus on the US and China,* TEFAF – Maastricht Art Market Report, (Maastricht: The European Fine Art Foundation, 2013).
[64]Clare McAndrew, *Fine Art and High Finance: Expert Advice on the Economics of Ownership*, (New York: Bloomberg Press, 2010), 23.
[65] "Art Funds: An Alternative Investment Approach that Find Stability in Today's Troubled Economic Times", *Artemundi Global funds*, (2015), http://artemundiglobalfund.com/, accessed: 25/05/2015.

Figure 12 – Value and Volume of Transactions in the Contemporary Art Sector, 2002 - 2012

Figure 2i. The Contemporary Art Sector: 2002 to 2011



Source: © Arts Economics (2010, 2011, 2012) with data from Artnet (2012)

(Source: www.artnet.com, Accessed: 27/05/2015)

Art can be considered as a certain securitized holding, and therefore during financial recessions, art dealing is a possible compensatory investment. Additionally, it does not embrace the risk of production neither unlike in the case of commodity markets. It is evident from the securitizing of financial risk through contemporary art that the cultural risks do not limit financial interests that demonstrate the financial power of aesthetics.[66] Contemporary art, being a form of accumulation of wealth and serves as both asset as well as a cultural object of aesthetic value, has the capacity to securitize the massive liquidity that now dominates political economy and shapes politics.

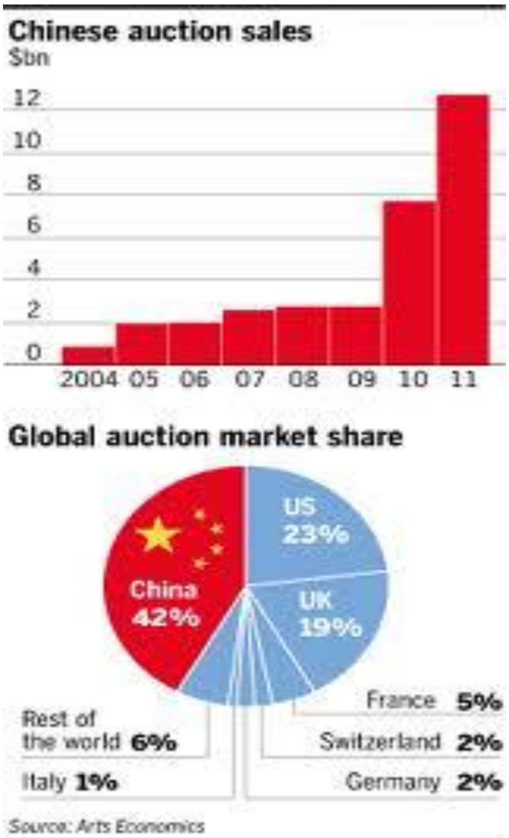
4.3.3 The role of China and other emerging art markets in the recovery

Since 2008, the emergence of developing countries' markets is clearly outstanding with the leading role of China. In 2011, China had 41% of global fine art revenue and by 2013 art

[66] Suhail Malik, *A Boom Without End? Liquidity, Critique and the Art Market*, Art Market Monitor, (August 2007), www.artmarketmonitor.com, accessed: 15/05/2015.

business was almost at its level of 2007 with operations worth €47.4 billion. With an increase of 63% meaning €46.1 billion since the crisis in 2009, the global art market continued to recover and by 2011, the volume of transactions increased by 5% as well.[67] This rapid growth of global art trade during the financial crisis is firstly due to China’s art market performance gaining hegemony in the industry in 2008-2009. The quantitative increase of artworks sold in China is based in a big part on European – mostly French classical as well as contemporary artworks imported. **Figure 13** indicates the increase of auction sales at the Chinese market in the period of 2004 – 2011 and the consequent growth of the country in the global art market share which is 42% after the crisis in 2011. Other developing art markets in Brazil, India and some Middle Eastern states had also a crucial role in bringing new investments and thereby shortening the recovery process of the market and contributing to its structural transformation.

Figure 13 – Chinese Auction Sales, 2004 – 2011 and Global Auction Market Share, 2011



[67]Dr Clare McAndrew, *The Global Art Market with a Focus on the US and China*, TEFAF – Maastricht Art Market Report, (Maastricht: The European Fine Art Foundation, 2013).

(Source: www.artseconomics.com, Accessed: 27/05/2015)

4.4 Discussion

Although the worsening economic conditions from 2007 left their marks on art markets, collectors and investors still showed an important interest in auctions as well as private deals from 2009 onwards. After the market bubble in 2007, a considerable economic slowdown and decrease in value and volume could be noticed. However, due to the long-time benefits of considering art a financial asset, the relatively stabilized market prices and a new class of wealthy investors, auction houses and galleries are seeing a new upswing today.[68] In conclusion, although in the period examined global economy shrank, the global art market has soon showed an incredible growth. From 2013 to 2014, international auction sales overall have increased of 26%.[69] According to the findings of the thesis, this growth is due to above-mentioned three major factors.

As for the role of the state in the recovery process of art markets, it had a rather regulatory role in the recovery process concentrating of the restriction of illicit trade and the protection of national cultural heritage. Although, as an investor, governments would have the capacity to boost market growth, the development of the art market is still neglected due to its small size relative to national economies and its specificities in pricing, the occurrence of speculation and the lack of transparency. Seeing the growing economic weight of the sector during the depression, hopefully further support can be expected from the part of governments realizing the relevancy of art markets in national economies for the above mentioned positive characteristics.

[68] Interview with Gábor Einspach, Director of Kieselbach Gallery, Budapest made by the author, 04/05/2015.
[69] "Contemporary Art Market 2014", *The Artprice Annual Report*, http://imgpublic.artprice.com/pdf/artprice-contemporary-2013-2014-en.pdf, accessed: 20/05/2015.

CONCLUSION

1. Hypothesis

What makes art markets to be a significant part of modern economies? The present thesis aimed to outline that art trade being an important part of the international financial system is a mirror of global economic tendencies, but in the same time it is also an independently changing system. Unavoidably, the bust of financial markets after a bubble reaches every segment of the economy, in this sense, the art market showed a parallel movement with global economic changes. Nevertheless, according to its hypothesis, global art markets have been less severely affected by the crisis and the recovery period was also significantly shorter than in the case of other markets.

The thesis especially focused on the EU market: on France, as a Western economy less hit by the crisis and having a traditionally powerful art market, Italy, as a member of the Mediterranean states hit by the sovereign debt crisis and a potential, but not effectively exploited art market and Hungary, a country gone through a recent economic transition with the most important art market in the Central-European region. The relevancy of the topic is explained by the importance of examining the connection between financial markets and art market in the frame of global economy due to the long-term financial benefits art dealing can offer. Therefore, it has also a positive impact on national economic growth and contributes to maintain global economic balance. Despite the positive future perspectives of art trade, a number of issues still have to be overcome in order to reach a more harmonious functioning of this sophisticated economic system. Questions of market regularization in terms of cultural heritage protection at national as well as international level, speculation of prices, transparency and a growing black market are only a few problems to be solved that was touched upon in the mirror of the financial crisis.

2. *Findings*

The financial crisis has driven the attention on finding new opportunities of investment. The art market has showed to be a possible way of economic growth in hard times of recession. Hence, art market is a mirror of national economies meanwhile its international character leads to a more and more globalized market. The growing accessibility of global art markets means that yet it is not only restrained for a small elite of wealthy collectors, but it can be an income source for everybody. As new ways of art dealing such as online markets opened up, the concept of art itself is expanding as well. Therefore art markets are in constant transformation, shaped by global economic forces, nevertheless they ensure a lower risk level, than other markets since during the crisis art performed better than fixed assets[70] according to the findings of the thesis.

Following the analysis of the fluctuations of art trade during the crisis, the findings demonstrated that firstly, prices in art markets are less volatile due on the one hand to their adjustment to inflation and on the other hand to its higher and higher disconnectedness from financial markets. Secondly, as an investment, there are many advantages that art can offer, such as the future return in value. Thirdly, the geographic concentration to China and the arrival of new markets to the network of international trade signify a new boost to market growth and thus had a significant role in easing the effects of the crisis. As a result, the presented good performances are due to a strategic renewal of the art market during the financial recession which led to an increase of investments and an important global-scale expansion of the market both in terms of value and volume.

Today, the estimated number of businesses selling art and antiques worldwide through galleries, auction houses, private dealers and public institutions is more than 300 000. In

[70] Jiangping Mei and Michael Moses, "Art as an Investment and the Underperformance of Masterpieces", *American Economic Review,* 92, no.5 (2002): 1656-1668.

2013, the international art market reached €47.4 billion in total sales of art and antiques.[71] All these facts show the growing economic weight of art industry. Art economics is a relatively new economic sector and therefore the connection of fine art and finance is not a frequently studied subject yet. Nevertheless, trading with art is becoming a more and more common and acknowledged financial investment worldwide. 2014 brought record revenue at the global art market with over €51 billion and it has also surpassed the period before the economic depression (2007) in terms of yearly sales with €48 billion.[72] This success can also be considered as a "promotion" of the creative industries, suggesting that support for the arts is in the interests of national governments for economic growth.[73]

Globalization and the development in information-technology have transformed art dealing to a truly global and industrial financial network. The present paper assumed that since the financial crisis, a new period of the sector has started characterized by a more cautious art risk management, the development of art banking and increasing number of art funds. Discovering the new opportunities provided by the meeting of art and business and the long-term financial benefits of investing in this special economic sector is what could contribute to hasten global economy growth in the future.

[71] Dr Clare McAndrew, *The Global Art Market with a Focus on the US and China,* TEFAF – Maastricht Art Market Report, (Maastricht: The European Fine Art Foundation, 2013).

[72] Clare McAndrew, *Global Art Market Nears Pre-Recession Boom Level as American Sales Soar*, (Maastricht: Tefaf Art Market Report, 2014), accessed: 23/05/2015.

[73]Suhail Malik, *A Boom Without End? Liquidity, Critique and the Art Market in Living in a Bubble: Credit, Debt and Crisis* Edited by Josephine Berry Slater, 103, (August 2007), https://books.google.hu, accessed: 14/05/2015.

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