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CHAPTER 24

THE FINANCIALIZATION OF ART

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Introduction

Compared with financial markets, the art market is negligible in terms of size and speculative activity. In 2007, for instance, *annual* turnover on the global art market was estimated to be $48.1 billion (McAndrew 2009: 13) while average *daily* turnover on the global foreign exchange market in the same year was $3.2 trillion, with $4 trillion by 2010.[1] Nevertheless, in the last 40 years art has evolved into a recognizable financial asset category that today is implicated in a wide range of financial transactions. Works of art are used as collateral in order to secure multimillion-dollar bank loans, they are or have been part of the portfolios of pension funds, and since the late 1960s various attempts have been made to establish investment funds that focus on art. As the cultural economist Claire McAndrew claimed, "[t]he growth of art funds and other professional art investment vehicles bears out the fact that both individuals and institutions have now fully embraced the notion of art as an asset class for investment" (2009: 27).[2] In short, the art market has become or is in the process of becoming financialized. By this, we mean that art markets have seen the emergence of new financial instruments and that they have become affected by "the increasing role of financial motives, financial markets, financial actors and financial institutions the operation of... economies" (Epstein 2005: 3; additional definitions of financialization in Krippner 2005; Aalbers 2008; Sassen 2001).

The financialization of art merits the attention of social scientists studying finance for a number of reasons. First of all, in spite of the fact that the investment potential of art has long been recognized (section one), its recent financialization has been resisted by both members of the art world and of the financial markets. Members of the art world have opposed the definition of art as an asset class and the commensuration efforts which this definition entails (see second section). Members of the financial community,

in contrast, have hesitated to recognize art as a valid asset class because of the art market's lack of liquidity, transparency, and standardization. Their opposition has, however, gradually eroded in a three-stage process of increasing rationalization and scientization of the market. As part of this process, art investment has been legitimated by adopting role models, organizational blueprints, and market devices from the world of finance (section three). Economists have played a key role in this process of rationalization and scientization: they have developed price indexes that, by rendering art recognizable as an asset class, function as boundary objects (see fourth section). But in spite of the market-making efforts of economists and other "institutional entrepreneurs" (cf., Battilana, Leca, and Boxenbaum 2009), the financialization of art is hardly complete. This is predominantly caused by continuing information asymmetries and failure to construct liquidity in art markets (section five).

The evolution of art as an investment good

In contrast to the newer financial instrument interest, art has been perceived as a store of value for hundreds of years. "Paintings are as valuable as gold bars," the Marquis de Coulanges remarked in the seventeenth century (cited in Watson 1992: 157). In the nineteenth century, the Rothschild banking family allegedly acquired art in order to diversify its portfolio. The family invested their wealth by thirds: equities, real estate, and the remainder in jewelry, art, and cash (Ferguson 1998). In the early twentieth century, the forerunner of an art investment fund was established by French financier and art lover André Level, who pooled together money from 12 other investors to found the Peau de L'Ours (Skin of the Bear) scheme. The funds were used to buy more than 100 works of art from artists such as Picasso and Matisse, who were still in the early stages of their careers. In 1914, the entire collection was liquidated. The sales prices for the works were, on average, quadruple the original acquisition prices (Fitzgerald 1995). Small-scale, informal, and largely undocumented investment groups like the Peau de L'Ours have continued to exist, not just in the West but also in the emerging art markets of India and China. They are the art market's equivalent of private investment clubs in the stock market (see Harrington 2008).

The financialization of art is a more recent phenomenon, however: since the late 1960s amateur art buyers have been joined in a piecemeal fashion by large, professional investors, such as investment funds, pension funds, and high net worth individuals who have ample experience with and knowledge about financial markets. The financialization of art takes off in the 1960s for at least two reasons: first of all, economists have pointed at the high prices for art in that decade and the widespread media attention these prices received (Baumol 1986). As early as the late 1950s, art was framed as an investment in popular magazines and newspapers such as *Fortune* and *The New York Times*. Second, the interest in art for investment purposes may be attributed to wider economic developments that made traditional investments less attractive and prompted investors to look for alternatives. In particular, worries about inflation helped to increase the legitimacy of art as a hedge. British scholar Gerald Reitlinger wrote in *The Economics of Taste*, a three-volume historical analysis of the art market, that "[b]y the middle of the 1950s, after two world wars, a world financial depression, and a world wave of currency inflation, 'art as an investment' had lost any stigma that it might once have possessed" (quoted in Horowitz 2011: 159). It would be another decade before the first art investment vehicles were launched.

The culture of the market: against speculation

The financialization of art should not be seen as an automatic process propelled by dissatisfaction with existing investment opportunities and the search for alternatives such as art. In contrast, it has been a contested process which involved a definitional struggle between two groups of actors (cf., Smith 2007): the financial community and the art world, which each draw upon their own evaluation practices (MacKenzie 2010) and invoke different orders of worth (Stark 2009). On the one hand, members of the financial community seek to transform art into an asset class, which requires standardization, commensuration, and quantification. Reasoning from what Viviana Zelizer (2000) has called a "Nothing But" perspective, in which two apparently distinct spheres—in this case, the art world and the financial markets—are reduced to one on the basis of some general principle, they define a work of art as "Nothing But" an investment opportunity. As Justin Williams, one of the founders of the Art Trading Fund, comments provocatively: "for me art is just a commodity, it's a cold thing. I have collected well, but I see art as a P&L [profit and loss account] on the wall" (quoted in Johnson 2007a).

This definition has been opposed by members of the art world, including art dealers, collectors, and artists, who see art as a unique, incommensurable, cultural or aesthetic object, and try to shield it from financial or commercial concerns. For these actors, the art world and the financial markets are an instance of what Zelizer calls "Hostile Worlds" (Zelizer 2000; Coslor 2010): they assume that an intrinsic conflict exists between art and money and that the incommensurable value of art is at risk once it is standardized and transformed into a "speculative object" (Espeland and Stevens 1998). As one dealer put it, investment funds are "dangerous, and unsafe for the market. They have not been set up for the right reasons and are destroying the notion of what art stands for, aesthetic beauty and to be admired in one's private collection or in a museum" (quoted in Mamarbachi, Day, and Favato 2008: 5). The definitional struggles between these groups indicate that the art market, as Charles Smith has argued, is not just a site where artistic goods are exchanged and prices are set, but also a site where meanings of these goods are

determined, valuation procedures are institutionalized, and rules regarding who may participate in the market are established (2007).

These contradictory definitions have direct behavioral repercussions, particularly in the market for contemporary art. Art dealers, for instance, claim that they prefer to "place" the works in the collections of buyers who are unlikely to resell them or who may even have committed to donating them to a museum (Velthuis 2005; Coslor 2011). In contrast, they avoid selling works to those they call "speculators," because they do not want to see those works return to a commodity phase after their initial sale (Appadurai 1990). In other words, while liquidity is a prerequisite for financialization, making the permanent selling and buying of an asset possible, dealers in contemporary art actively seek to curtail this liquidity. To accomplish this, they have stipulated a right of first refusal in selling agreements and have informal blacklists of those collectors who have a reputation of quickly reselling a work of art at auction in order to make a profit. As one established New York art dealer put it:

> You can tell a speculator very quickly.... Just the kind of questions they ask, and what they ask for. It is almost like they are wearing a sign. A speculator would come, and look at your gallery program, and ask for the two things that are most sure to increase in value.... When we see each other, they know exactly what I think of them, and they know they cannot buy here, no matter what they want to buy. (quoted in Velthuis 2005: 44)

Apart from definitional and symbolic reasons, the rationale for these practices is that investors may destabilize a market that is characterized by uncertainty regarding the artistic and economic value of the goods exchanged (cf., Plattner 1996). Art dealers seek to stabilize the market by setting prices according to widely shared pricing scripts, which prompt them, for example, to increase prices in a piecemeal fashion (see Velthuis 2005). In addition, price decreases, which signal a lack of quality to collectors and harm the self-esteem of artists, should be avoided at all times. The stabilizing efforts that dealers exercise through these scripts can be hampered by investors reselling their holdings at auction, which in turn produces price volatility. Because of the signaling effect of prices and price decreases in particular, art dealers seek to avoid this volatility (Velthuis 2003; Coslor 2011).

As a result of the oppositional evaluation practices, the art investment community has remained by and large a separate circuit within the art market (cf., Zelizer 2004). However, it has been strongly linked to the auction houses, whose rationalized and commercialized evaluation practices have been more in line with those of financial markets. Unsurprisingly, the initiators of art investment funds have themselves frequently worked at auction houses in the past. Links between the art investment funds and the art world have also been established by art experts such as ex-museum directors and art critics, who almost invariably are part of the funds' management or advisory teams. Investment funds have recognized that economic valuations in the art market crucially depend on what Lucien Karpik (2010: 101) has called "an expert-opinion regime," which "rests on choices made by experts entrusted with selecting the best singular products." In other words, art investment funds rely on the artistic judgment of experts such as museum directors, art critics, or others who possess, as Bourdieu (1993) put it, the symbolic capital to consecrate art and thereby establish its economic value. Moreover, art investors have an additional interest in relying on these experts since they may have insider knowledge regarding art world trends and informational advantage about, for instance, the whereabouts of specific works of art that the fund wants to buy, or latent demand for specific works that it seeks to sell.

Making art comparable to finance

The financialization of art has not only been opposed by the art world, but also by the financial community, albeit on altogether different grounds. Most members of this community have not recognized art as a valid asset class, pointing to structural barriers to the financialization of art, such as the heterogeneity of art, lack of liquidity, and the non-transparent character of the art market. With the growing financial interest, these barriers have been partially removed, in a process of standardization, scientization, and professionalization. As has happened in the past in financial markets (see, e.g., Preda 2009; Stark and Beunza 2004; MacKenzie 2005), passion and intuition have slowly been replaced in the art market by calculated, informed decision-making assisted by increasingly abundant flows of information, increasingly sophisticated market devices (Callon and Law 2005), and new stocks of knowledge. This process has involved a wide range of actors such as academic economists, pension funds, auction data providers, art market research companies, art appraisers, legal services, insurance companies, and accountancies. Their often concerted efforts have rendered the art market more transparent and predictable. Moreover, by adopting organizational blueprints, market devices, and role models from the world of finance, these actors have sought to legitimate this financialization of art.

We can identify three key stages in this process: the first stage (1960–80) is characterized by a small number of pioneering parties who tended to be driven by a passion for art or an adventurous investment spirit, rather than thorough knowledge and information about the art market, a relatively scarce knowledge at the time. This first phase saw the establishment of what would turn out to be one of the most important market devices for art investment: the art index. In 1967, *The Times* of London was the first to make art explicitly comparable to stocks by publishing a graph representing the price development of art, akin to a stock index. As a journalist remarked with hindsight: "By demonstrating that pictures could be thought of in this way, the index guaranteed that they would be. It presided over a vertiginous rise in the value of art, as moneyed individuals, corporations, even pension funds found that they could justify the acquisition of a painting in exactly the same way that they could a block of shares" (Hensher 2006: 23).[3] In other words, the index made works of art commensurable and stripped them of their unique, heterogeneous character. It reduced the complexity of price developments on

the art market to a single chart or number. At the same time, it fulfilled the symbolic function of classifying art as an asset class and making it comparable to already existing investment categories (cf., Lounsbury and Rao 2004).

A related attempt to commensurate and standardize art was made during this first phase by securitization, usually through art investment funds. One of the first art investment funds to do so was the Sovereign-American Arts Corporation, which was conceived in 1968 by a group of British and American investors. They bought "world art" made in the two preceding centuries, and hired advisors that included former museum directors. By late 1969, when the company was about to go public on the New York Stock Exchange, it owned 70 works of art, including pieces by Kandinsky and Giacometti. The initial public offering was a success: on the first day it was listed, the stock price rose from an original price of $6 to $25.

In the years to follow, similar initiatives would follow in the United States, Belgium, Switzerland, Luxembourg, and Germany, often with support from established banks. Some of these efforts catered to the interests of retail investors while others only allowed access to high net worth clients.[4] Apart from making the investment market for art more liquid, these securitization efforts rendered art more attractive for investment purposes because they allowed for diversification, the use of expert advising, and the ability for investors to do away with the sometimes intransigent problems of storage, security, and caring for the actual objects.

One of the successful investments in this early stage was the portfolio of art assembled by the British Rail Pension Fund, which in 1974 began buying art and antiques as a hedge against inflation, rampant in Britain at that time (Eckstein 2008). Assisted in its acquisitions by Sotheby's, the pension fund's collection eventually included more than 2,400 works of art in a wide variety of genres, such as paintings, manuscripts, Chinese ceramics, African tribal, and medieval art. It had generated $300 million in total after the bulk of the collection was sold in 1999, the equivalent of an annual return of 11.3 percent (Caslon Analytics 2008a).

Most of these funds, however, turned out to be short-lived. Moreover, the Times-Sotheby Index was discontinued in 1971, apparently at the behest of Sotheby's chairman Peter Wilson, due to a temporary art market bust (Haden-Guest 1996: 53). This bust also caused the stock price of Sovereign American Arts Corporation to fall back to half its initial public offering (IPO) price a year after it had been launched. When the stock market recovered in the late 1970s and other alternative investments became available, interest in the financial aspects of art died down for a number of years. As *The New York Times* wrote in 1985: "The mutual fund approach to art, a hot idea during the art boom of the 1970s, has no survivors" (Bender 1985).

A second wave of art investment initiatives emerged in the late 1980s and early 1990s, a period when the art market boomed, as it had in the 1960s. During this phase, transparency was enhanced by the emergence of art price services which, like Reuters or Bloomberg for traditional investment assets, began supplying potential investors with systematic data about auction prices. Just as the advent of the information society involved transparency in financial markets, with time series and real-time data on a

wide range of assets (see, e.g., Knorr Cetina and Bruegger 2002; Preda 2006) this was also seen in the art market: before the 1980s, it was often unclear if, where, and against what prices works of art were traded.[5] Data providers such as ADEC / ArtPrice or Artnet have made art's potential investment value easier to calculate, thereby reducing the role of intuition in making investment decisions, in favor of some hard numbers. These services can be seen to have democratized, rationalized, or even "purified" the art market, just as they have done in other financial markets (see, e.g., Levin 2005; Zaloom 2003). By making information available more widely and at lower cost, they have reduced the importance of insider knowledge and information retrieved in personalized networks. Moreover, in providing additional information such as the medium in which the work was executed, the size of the work, and its provenance, they have contributed to institutionalizing certain standards for valuing art.

However, this democratization and rationalization of data provision is not complete. Nonsystematic information about trends in the art world, changes in artistic taste, and inside rumors can affect the value of the artist's body of work. Inside information of this nature, such as future plans for a museum retrospective, can only be obtained through personal networks, dense interactions, and schmoozing with members of the art world (Storper and Venables 2004). In fact, some data providers have found a market niche in the sale of such idiosyncratic information, and it should be noted that insider trading is not regulated in this market.[6]

Together with growing information sources, plans to create art funds were again attempted in this second phase of the financialization process; reflecting the further professionalization of the sector, international banks such as Citigroup became involved. These banks started to recognize the art collections of their wealthy customers as part of their financial investment portfolios, and offered art advisory services as a tool in customer management for private banking. While art advisory is a service that many banks continue to provide, interest in fund-based investment fell off as inflation decreased, the art market crashed in 1990, and some initiatives such as an art investment fund by BNP Paribas lost large sums of money.

The third transformative wave has been through structured finance, as a new group of art funds repackaged the investment as private equity instead of exchange-traded mutual funds. In addition, building upon better information about the art market and new thinking in finance, art has been promoted as a component of a diversified investment portfolio. This phase has been characterized by mimetic isomorphism (DiMaggio and Powell 1983), as role models and organizational blueprints from the world of finance have been adopted by the art investment community, which has increased legitimacy. For instance, the newly established art funds have generally adopted the fee structure of "ordinary" private equity funds: an annual management fee of 2 percent over the assets under management as well as a performance fee of 20 percent over the fund's annual return ("two and twenty"). Potential investors of these funds are limited to financial entities such as pension funds and individuals who meet the high minimum net worth requirements, which vary by area and national regulations. The specific investments are typically chosen and monitored by the management team of the organizing private

equity firm. Neither the exact amounts nor the returns made can be independently verified, because private equity funds are not publicly traded and are therefore not obliged to publish this information.

The scientization of art investment has continued during this phase through the establishment of market research companies that analyze prices and other market trends, and report their findings through benchmarks, confidence surveys, and market outlook reports. These market devices, which apply the analytical tools, discursive formats, graphical representations, and market rhetoric of the world of finance to the world of art, can be thought of as boundary objects which bridge both worlds (Star and Griesemer 1989).[7] Like the use of bookkeeping in the past (Carruthers and Espeland 1991), they fulfill both the technical role of informing an audience of art collectors and the rhetorical role of convincing this audience as to the soundness of investing in art. Some of these devices, such as the indexes produced by art consultancy firm Art Market Research, are distributed to the wider investment community through Bloomberg, one of the world's leading data providers and trading platforms for financial markets. Thus, the ability to reach financial market traders through their native platform further promotes and legitimates art as an investment good.

The Role of Economists

The scientization of art investment established by research companies and data providers has been further reinforced by the production and dissemination of economic knowledge on the art market. This knowledge, produced from the 1960 onward by both academic economists and practitioners in the field, has been crucial in understanding the investment potential of art. Since the early 1960s, economists have regularly investigated the investment potential of art vis-à-vis traditional portfolios consisting of stocks and bonds (for overviews of the literature see Ashenfelter and Graddy 2003; Frey and Eichenberger 1995). Through the use of sophisticated techniques such as repeat sales regressions and hedonic regressions, they correct a key defect of the indexes commonly provided by market research firms and popular media, which is the assumption that all art is of equal quality. Those "naïve" methods typically take the top percentage of auction prices to represent the market, which is convenient, but may distort market trends. This is because price changes may be caused by varying characteristics of the works of art traded (such as their size or style) rather than changing valuations of art per se. The more sophisticated methods developed by academic economists can control for the extreme heterogeneity of art and high variation in quality. As a result, these art indexes have contributed to rigorously quantifying the art market.[8]

Most early studies have found that investments in art slightly underperform in comparison to a traditional portfolio consisting of stocks and bonds (see, e.g., Baumol 1986; Frey and Eichenberger 1995; Pesando 1993). But more recent studies present a mixed view. In a study that has been widely cited in the media and by art investment companies, Jianping Mei and Michael Moses constructed a repeat sales index and found that between 1875 and 2000 art had an annual return of 5.6 percent, which was a higher return than government bonds or treasury bills, and almost equal to the return on corporate bonds, if lower than the return on stocks (Mei and Moses 2002). However, the differences in findings within the now substantial economic literature can usually be explained by the data sources and methodology used, as well as the genres, time period, and geographic area of focus.

Apart from studying the rate of return, recent studies have also addressed the question of whether price movements in the art market and in traditional financial markets are correlated, in order to see whether art lends itself to portfolio diversification. These studies often employ the capital asset pricing model (CAPM) developed by academic economists in the early 1960s. Again, the results differ. Mei and Moses found art had a very low correlation to traditional asset classes, and concluded that "a diversified portfolio of artworks can play a somewhat more important role in portfolio diversification" (Mei and Moses 2002: 1663). Other studies found that art indexes move in the same direction as traditional assets, for example, as measured by a global equity index, meaning that limited or no opportunities for diversification exist (e.g., Goetzmann 1993; Renneboog and Spaenjers forthcoming).

Almost from the outset, the actors involved in the financialization of art have used this scientific knowledge to design new products and legitimate their activities. In the early 1970s Christopher Lewin, the Director of the British Railway Pension Fund, reanalyzed Reitlinger's three-volume compendium of art prices in order to examine the investment potential of art (Horowitz 2011). Art investment funds typically carry academic references in the fund prospectus. Moreover, some cultural economists, such as Michael Moses, have actively promoted art investment by acting as consultants to investment firms, marketing their own research to such companies, highlighting this potential in the media, and regularly participating in investment seminars. Moses is not shy about his active role in constructing an investment market for art: "[H]e firmly believes that fine art will become a basic asset class such as real estate assets. . . . He hopes that his research will keeping playing an important role until his prediction will become true" (Deloitte 2009). This could be interpreted as a type of performativity effect (cf., Callon 1998; MacKenzie 2006), where rather than just describing an investment market for art, economists help this investment market come into being.

The Limits of Financialization?

Despite our findings here, we do not suggest that the art market has fully become an investment market, even if recent efforts provide a bridge that allows art to be defined and treated in this way. Much like the property markets, people have and will continue to consume artwork, for decoration, social standing, and aesthetic appreciation, whereas investment interests will wax and wane, depending on market conditions and

investment alternatives. Anecdotal evidence suggests that only a minor part of all art acquisitions are made with a primary investment motive. For example, the media have characterized the large sums that hedge fund managers such as Stephen Cohen or Kenneth Griffin spend on art as indicative of the financialization of this market. But while investment motives may have been present, it is more likely that such buyers are interested in the status that art may confer, in gaining access to a cultural elite, or in constructing, as Tom Wolfe (2007) put it, "the pose of a pirate," which could assist in attracting clients to their funds (see also Velthuis 2008). In short, even when hedge fund managers buy art, it is predominantly bought for consumption or business motives, rather than direct investment.

This relates to a specific problem for art funds: some of those willing to invest in art prefer to buy artworks directly, rather than in securitized form. The direct contact with artists, dealers, and fellow collectors and the search for investment-worthy treasures provides inherent nonmonetary benefits, on top of potential financial returns.

Indeed, despite the many flurries of interest, relatively few success stories—or even long-term survivors—in the art investment fund industry exist. Although this may benefit the few funds that are able to succeed and offer additional investment tranches, the overall impression is that the industry lacks a strong track record, making it more difficult for new funds to interest potential customers. With the financial crisis and the subsequent crash of the art market, several funds closed, while plans for new ventures were shelved. According to some estimates, only 20 investment funds are operational worldwide, of which only one has even a six-year track record (Adam and Mason 2005; Caslon Analytics 2008b; Gerlis 2009; Picinati di Torcello 2009.)

Notwithstanding the elaborate market-making activities by various actors, including data providers, research companies, and academic economists, the financialization of art has been incomplete—or is at least far from finished, especially when compared to other financial markets. The institutional development of investment in art has been limited: there are no tradable art indexes, derivatives to bet on a fall in prices, or credit default swaps to trade the risk related to art-backed loans, while hedging against a portfolio of works of art is virtually impossible (Campbell and Wiehenkamp 2010; Ralevski 2008).[9]

One of the main reasons for the incomplete financialization is that the art market remains highly illiquid. As Carruthers and Stinchcombe (1999) have argued, liquidity does not emerge automatically in markets but needs to be actively constructed. In order to do so, three conditions need to be fulfilled: (1) trading needs to be continuous by large groups of buyers and sellers, (2) market-makers need to be willing to continuously maintain prices, and (3) goods need to be homogeneous and standardized (see also Lépinay 2007). In art markets, none of these conditions hold. First of all, trading is not continuous, but mainly occurs during a limited number of dense, highly ritualized moments. As art adviser Jeremy Eckstein put it: "You don't wake up one morning, look at the FTSE, phone your broker and say 'get out of industrials and into impressionists'... if you are buying shares, you can sell them and know what price you're going to get. You can't do that with art" (quoted in Mamarbachi, Day, and Favato 2008: 7). The two largest auction houses, Sotheby's and Christie's, organize their main auctions for modern and contemporary art on a biannual basis only, during the so-called auction weeks in November and May. Other moments of dense market trading include annual art fairs such as Art Basel or The European Fine Art Foundation (TEFAF), where established art dealers in the high-end market and their clientele meet in person.

The absence of continuous trading is also caused by the long holding period of works of art, which reflects art's status as a collectible, rather than an investment good, and which is made necessary due to high transaction costs and the unfavorable perception of rapid trading of work at auction. A stock traded on the New York Stock Exchange changes hands more than once per year on average. By contrast, Mei and Moses found that the average holding period in a large sample of works of art sold at auction was 28 years (Mei and Moses 2002; Watson 1992). This means that works of art made by a specific artist or within a specific style tend to be infrequently transacted, which increases uncertainty for investors. Moreover, the long holding period also limits the underlying data available for market measurement.

Second, although auction houses at times fulfill this role, no formal or informal market-makers exist to guarantee continuous trading. This is particularly the case for the contemporary art market, that is, the genre where, on average, investors have the ability to see the highest percentage increase in price. For the vast majority of contemporary artwork, no secondary market exists, since no dealer or auction house is willing to trade in these works. This, in turn, is related to the highly uncertain and unstable value of these pieces: due to changes in art trends or canons of taste, demand for certain styles may falter quickly. In other words, the potential rewards here are high, but so is the risk.

Third, the art market is not just characterized by heterogeneous goods, but also by an absence of shared, stable standards of value. As Stuart Plattner argued in his ethnography of the art market: "The bankruptcy of art criticism and evaluative art theory traced historically to the triumph of the impressionists and the dealer-critic system that marked them, means that value is mysterious, socially constructed, and impossible to predict a priori without an experts' knowledge" (Plattner 1996: 195; see also Moulin 1994). "There is a constant ebb and flow in art historical reputations," as a former well known art dealer and banker put it in *The New York Times* (Pogrebin and Flynn 2011). As a result, art prices are inherently volatile.

The creation of liquidity can be seen, as Carruthers and Stinchcombe have argued, as a problem in the sociology of knowledge. Indeed, the absence of liquidity in the art market can be attributed to a failure in converting the idiosyncratic, personalized knowledge of individual market actors regarding specific works of art into generalized impersonal knowledge (Carruthers and Stinchcombe 1999: 356; cf. Carruthers 2010; MacKenzie 2010). Although information provisioning has been improved by data services like artprice.com and artfact.net, more than half of all sales in the art market do not take place at public auctions, but privately, meaning that no price records are available (see McAndrew 2009). This information problem is especially pronounced in the primary market for art, where auction houses are not active, and which is dominated by private art galleries who do not have to report prices or other figures such as profit or turnover.

Moreover, a considerable amount of the information necessary for the valuation of works of art, such as the authenticity of an artwork or information about the career prospects of a contemporary artist, is difficult, costly, or even impossible to obtain. Generators of generalized knowledge such as securities analysts (Zuckerman 1999) are notably absent in the art market. As a result, information remains asymmetrically distributed, resulting in high uncertainty and lack of liquidity.

The lack of liquidity and costliness of information mean that works of art cannot be bought and sold easily; it is difficult to locate and match supply and demand, which in turn results in high transaction costs. Buying or selling a work of art at auction tends to involve a fee of up to 25 percent, while a private art dealer may ask commissions of 20 or 30 percent. These expenses, together with high costs for insurance and storage, significantly depress the potential returns. Moreover, the threat of forgeries necessitates careful and costly tracing of provenance.

A final institutional characteristic that renders the art market less attractive to professional investors is its highly unregulated character. Large transactions are frequently concluded with a handshake, while art dealers may represent artists without written contracts (Lerner and Bresler 1998). Insider trading—in the sense that assets are bought or sold because a buyer has insider knowledge about conditions or events that will affect the value of a piece of art—is by and large legal. Imperfect information and the unregulated character of the art market may create opportunities for arbitrage that are attractive to some investors, but the resulting uncertainty has the effect of deterring others.

Conclusion

Wading through the specificities of this market shows that the financialization of art has been an evolving process, and is not yet complete. It is too early to tell if the limits of what can be financialized and securitized have been reached in this market, or if it is merely a slow process. Currently, art investment lacks widespread legitimacy for both the art community and the financial community; the former because of opposition to the redefinition of works of art into speculative assets, the latter because of the market's lack of standardization, information, and liquidity. The creation of boundary objects such as art indexes have helped art to become a boutique investment, but have failed to capture widespread approval.

Research in the sociology of financial markets indicates what path may be ahead for the financialization of art. The current situation is historically far from unique. For instance, the lack of legitimacy of investing in art and the "Hostile Worlds" discourse invoked by members of the art world resemble the unfavorable eighteenth- and nineteenth-century representations of financial markets outlined by Preda (2009). It is therefore not out of the question that a further rationalization and scientization of the art market could remove the cultural barriers that have so far restricted its financialization, and could assist the art investment community in their definitional struggle against traditional factions in the art world.

Carruthers and Stinchcombe's portrayal of late seventeenth-century stock and bond markets reads like a vivid description of the art market today, where "the absence of a centralized financial market reduced the liquidity of both. Transaction costs were high, debts were hard to value, market makers were absent, and it was difficult to match buyers with sellers. Potential buyers and sellers were scattered about, and it was costly to bring them together" (Carruthers and Stinchcombe 1999: 371). Within decades, however, and partly due to government intervention, liquidity was constructed and the markets flourished.

Whatever the future holds for art, employing these financial investment understandings opens up a notion of markets and financial instruments as inherently evolving and developing. Further plans for the expansion of art finance have already been put forward by market actors, such as a tradable art index, art derivatives, title clearing, art buying loans, funds of funds, and so forth. In this view, a failed investment is not always a failed investment—failures can be seen as a natural step in the process of experimenting to find the correct instruments to simplify, standardize, and homogenize art, stripping each individual work of its distinctiveness and grouping categories of art together in order to make them comparable and commensurable.

Notes

1. The art market turnover includes both sales at art auctions and by private art dealers. For the 2007 figures on currency markets see BIS (2007); for 2010 figures see BIS (2010).
2. For instance, the Metropolitan Opera in New York put up two of its Chagall murals to secure a loan of $35 million from JP Morgan Chase (see Wakin 2009).
3. *The Economic Times* of India has also published an index representing the price developments of Indian contemporary artists since 2006.
4. For these early initiatives, see among others Anonymous (1969); Anonymous (1970); Anonymous (1975); Faith (1985); Glueck (1969).
5. Technically, the history of institutionalized data provision goes back until at least the nineteenth century, when several compendia of art prices were published in France and Germany (see Guerzoni 1995). In the course of the twentieth century various companies started publishing annual auction price data books (e.g., Mayer in 1967, Hislop in 1968, ADEC in 1987). By the turn of the millennium, most of these companies had transferred their services to the Internet.
6. One example is the Baer Faxt, distributed since 1995 by New York art adviser Joshua Baer to provide insider information on the art market (www.baerfaxt.com).
7. Artprice.com, which develops one of these confidence indexes, states on its website that it is based on "the theoretical foundations underpinning the Michigan Consumer Sentiment Index" (Artprice 2009).
8. The repeat sales indexes eliminate heterogeneity by compiling a dataset of works of art that have appeared on the market at least twice, so that price movements can be attributed to identical works of art. Hedonic indexes, which are also used for real estate, account for

heterogeneity by controlling for various properties of artwork that may influence prices, such as the size or medium. As a result, the performance of the index better reflects the actual return.

9. In 2007 the Art Trading Fund developed a proxy hedging strategy, by shorting companies including Sotheby's and other luxury goods producers that were purportedly highly correlated to the art market, but this strategy folded in 2009 (Adam 2010; see also Johnson 2007b).

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Acknowledgments

This project draws on a wide range of empirical research, historical evidence, and conceptual analysis of finance. It was born from the conviction that the need for a specialized handbook of finance is particularly urgent today, in view of widespread and quite fundamental disagreements about whether finance and financial markets are a benevolent force or plague that works against equitable and just relationships in contemporary societies, whether they are still controlled by political oversight or rather rule politics, and about how the financial sphere really works and should be working. When there are such disagreements they reflect not only a general malaise with a sphere of activity that seems to have spiraled out of control, but also simply a lack of familiarity and knowledge. David Musson had the vision that academic publishers can do something to remedy this situation—they can help synthesize and formulate the available information. Even if we possess only pieces of the overall picture, assembling the pieces together in a handbook, we agreed, will contribute critically important information to the often very general public discussion—and it can stimulate detailed research by bringing clarity to what we know and what is missing from particular disciplinary perspectives. This handbook, then, could not have been realized without David Musson's encouragement, patience, and insistence through all stages of the project. It could not have been realized, of course, without the enthusiastic agreement of all our contributors, who wrote the handbook chapters. They had to put up what must have seemed an endless stream of emails, phone calls, requests for revisions and changes at short notice—interspersed with long periods of silence, when chapters were processed.

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This is the second book we have co-edited—a considerably larger and more ambitious undertaking than the first. The entire process of discussing its concept, substance, and structure and of arranging and re-arranging chapters into various sections has, if any-