The Distribution of Contemporary Art

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It doesn't take much thought to understand why the consumers of Cartier watches are a tiny affluent slice of the population: its maker produces, prices, and markets them to be so. It is harder to immediately comprehend why the same is largely true for contemporary art. The pages of arts publication are filled with descriptions of the production of contemporary art, yet there is usually little about its distribution. Here I take a stab at addressing how well its institutions get work from an artist's studio to - for the want of a better word - its consumers. Its conclusion is not reassuring: I suggest that because the private incentives of its distributors are so oriented towards exclusivity, the footprint of contemporary art is more limited than it could be, and perhaps dramatically so.

The argument below has three pieces. First, economists are used to evaluating the efficiency of a good's distribution. In many settings, this comes down to one idea: if someone values a good more than anyone else does, and more than it costs a producer to make it, she should have it. In a market economy, this relies on appropriate price setting.[1] We begin by staring at prices in the art market: are they set in a way that allows efficient consumption? Most sellers of goods would like to price them high if they can get away with it. What stops them is competition - they lose business to someone else. I first provide some reasons why the tendency to price towards exclusivity and to restrict supply - in a very specific sense - is especially pronounced for contemporary art. This is largely because price competition does not work well.

The second piece of the argument is that while this is done to earn money for artists and their galleries, it ultimately does no good for most of them. This is because of a very unusual feature of the art market, namely the combination of what we call inelastic demand and free entry of galleries. In fact, if evidence from other settings is true, the main likely implication of these practices is to reduce the quality of art consumed. This is because it allows room for weaker galleries to capture some of a market that they would otherwise be excluded from.

The final component of the argument concerns the cost of these practices. There is the usual cost of high prices here, namely, that some buyers are excluded from consumption. This is standard fare. I argue that there is another, perhaps larger,

[1] To take a simple example, suppose that it costs Apple $1,000 to make a phone. If it decides to price it at $5,000 instead of $1,000, the problem is that all those who value an iPhone between $500 and $4999 no longer get one.

cost. Specifically, one reason why so few people interact with contemporary art may be that they encounter it so infrequently. Then restricting supply - in the sense of people not coming across art in their workplaces, schools, hospitals, friends' homes, or whatever - not only affects the potential buyers but also harms others. Goods that have these kind of third party benefits are called *public goods*. I argue below that contemporary art is characterized by a particularly virulent form of public good called a *network externality*. In these situations, there is often next to no incentive for suppliers to provide public goods, thereby - in this setting - locking the distribution of contemporary art into a narrow circle. Depressingly, there is little any individual actor can do to change this.

First consider art prices. These are almost never publicly advertised, so some caution should be applied to any conclusions based on them alone. Efficiency entails that any collectors who values an artwork more than does the artist or gallery should own it. This is decidedly abstract. However, things are easier when goods are durable. In that case, we can look at the market for "old" goods as an indication of how producers of "new" goods are behaving, where strangeness in the secondary market can point to problems in the primary market. As an example, consider the housing market, where we can looks at how new houses differ from old houses. First, new and old houses of similar quality sell for about the same price. This helps alleviate some concerns that property developers are "ripping off" people, or at least no more than you do when you sell your house. Second, there are no implicit or explicit prohibitions on house owners to sell: instead, real agents compete for your business. These sort of facts help to reassure that whatever shenanigans property developers are up to, their harmful implications (at least as prescribed by the ideas of economics) are limited.

The contemporary art market does not look like this. Press reports are fond of reporting on collectors who purchase a work of art on the primary market and immediately "flip" it on teh secondary market for much more. This phenomenon is rare, and arises for younger rising stars and some very established names. The norm for most artists is the precise opposite: most collectors would "take a bath" if they were to turn around and sell their work immediately after buying it. This point has been made before.[2] To look at new and old prices, we can compare primary market

[2]For example, see Doug Woodham's recent book, *The Art of Collecting*, Allworth Press, 2017.

prices by galleries (the new) to auction prices for existing work (the old). Auctions are usually advertised a few months in advance, so the auction price is willingness of the market to pay with three months notice, not a bad measure of market price. Notable discrepancies could suggest something amiss with price setting by galleries.

As part of running a collection for the Booth School at the University of Chicago, I have learned quite a bit about primary market pricing. It is is striking how far these secondary market auction prices usually are from primary prices at a gallery. I should be clear who we are talking about here. These are not the market superstar names who have broken their auction records that we read about in the art press. Nor are they unknowns by any stretch of the imagination. Instead, they are the kind of successful mid-career artists that we see in these pages. I could spend the next number of paragraphs providing data of a list of artists x, y and z whose auction prices are a fraction of their gallery prices, but no good would come of naming names. Instead, I will try to aggregate. Art that with a primary market price of say \$40,000 routinely sells for about \$15,000 at auction.[3] It should not surprise anyone that galleries usually hate to see their artists' work come up at auction. No one wants this discrepancy advertised, and collectors who put work up for auction are often heavily criticized for doing so.

Many in the art world take this for granted. However, to calibrate its weirdness to an outsider, imagine that the same was true of the housing market with the following story. New houses are listed for \$1m. Old houses, despite being similar, sell for \$250,000. As a result, new houses rarely sell, and when they do, they only sell to the wealthy as the price excludes those of more moderate income. Furthermore, some people in old houses want to move somewhere else, and would like to sell their house. Even after realizing that the house they bought for \$1m can only be sold for \$250,000, when they put their house on the market, they are excoriated by property developers as "flippers", who accuse them of harming them and the careers of their employees. Finally, people who buy new housing tend to buy many houses, but rather than live

[3]As an example, our collection was recently offered work by an artist who would generally be considered a star, highly regarded by collectors and museums alike. The work was priced by the gallery at over \$100,000, despite the fact that three works of similar quality sold at auction for a fifth of that price the previous week. It is worth pointing out that this issue also applies across the entire secondary market: the market is extraordinarily illiquid.

in them, they board them up, leaving them unused. This must seem like a caricature of a disastrous housing market. Yet, for large parts of the art market, this is how is works.[4]

The second issue for access efficiency is the restricted supply of contemporary art. It would be ridiculous of me to argue that a painter should knock out a few more of those nice portraits that she does. At no point in this essay is it suggested that artists change what they do. However, for many artworks there one close to costless margin to change supply, namely its edition size. Think of say a photographer who has an image that meets her standards. How many copies should she make? The marginal cost of production is minimal. Despite this, edition sizes are often very small, so supply is restricted even when it is next to costless to do otherwise. Here the calculus is simple: a smaller edition size might raise more money, but means that fewer people see the work. Below we address whether galleries likely have the right incentives for edition size.

The second theme of this essay is the payoff from pricing and producing for the few. The achilles heel of the economic notion of efficiency used above is distribution: while it ensures that goods are in the hands of those who value them most, it does not guarantee that the producers of those good are paid adequately. Instead, it pays whatever the market will handle. So perhaps these issues need to be at least weighed against income received by artists and their galleries. Does this pricing model result in higher incomes for artists and their gallerists?

Here it is important to precisely know what question you are asking. A simple one: would the typical gallery make less if it reduced its prices tomorrow? Almost surely yes, as galleries know better how to set their prices than I do. The more complex question is whether most galleries pricing in this way results in higher incomes when the market shakes out. Here the answer is likely no for a large swathe of galleries

[4] Incidentally, the fact that access to art is so exclusive offers an ethically appealing circularity regarding resale. Most owners of contemporary art are wealthy. (When a postman puts together a wonderful collection, it is precisely because it is so strange that it makes the papers.) I suspect that many readers will be little perturbed by constraints on resale: anything that on the margin puts resources in the hands of artists (and maybe galleries) over those wealthy collectors is something that they might applaud. Yet this is only because the institutions of the art world are designed in this way.

and their artists. The reason has to do with entry. One of the strange features of the commercial art market is that galleries have local market power - meaning its collectors will not run away when they ask higher prices - yet there is free entry to the gallery sector. This radically changes how much artists and galleries make, because galleries will continue to enter until profits disappear for a large group of galleries.

Research on real estate agents provides a useful analogy here. Your real estate agent (and company) typically earns 3% of the sale price of your house. (The real estate companies essentially don't compete with each other to keep rates at this level.) Say the average house in the United States sells for $300,000. Your real estate agent makes $9,000. Given how much time he spends selling your house, this is far beyond the market value of his time. Despite this, real estate agents earn no more on average than the earnings of other people with similar experience and education. This is because all those $9,000's are competed away by "too many" agents entering the industry until such point that they get a listing infrequently enough on average to only make their market wages.

Translating this to the art world, the return to pricing high is dissipated as galleries continue to enter until any excess returns disappear.[5] This could explain the plethora of galleries, say, on the Lower East Side of New York, who absorb demand that is not exhausted by their Chelsea counterparts. Its implication is - for them - a very competitive business with high prices and relatively infrequent sales that just about pay the rent. My guess is that this resonates for many galleries.

If the lesson of the real estate industry carries over, it is worse than simply adding a few new players to the mix. The problem is not just that too many people become real estate agents, but also that the quality of real estate services goes down. It turns out that the marginal real estate agents who enter the industry are not only worse agents (in the sense that it take them longer to sell your house, for less), but they get a disproportionately large share of the listings. Hence house sellers on average are worse off, not just because they have to pay the 3% but also they get worse real estate agents. If this is also true for the marginal art galleries that pop up, then on average

[5] Realistically, the conduit of competition described here has less effect on the most blue chip of galleries: they are not in competition with start ups on the Lower East Side. However, even those galleries find other ways to imperfectly compete. The most visible is through situating galleries in the most expensive districts of cities, and lavishly designing them.

worse art sells. As an an extreme version of this, we come across these galleries at nth tier satellites of major art fairs. These galleries have wares that leave you wondering who can possibly be buying the work. Yet stay in business they do, and part of the reason that they do is because of the pricing strategies of their competitors.

There is one point that needs to be made here. At no point in this essay do I argue that galleries *should* change what they are doing. Economists are fond of talking about market equilibrium, which are the outcomes that arises from the participants' privately optimal actions given the institutions and constraints that they face. Galleries face an environment where the pricing and entry decisions of its competitors constrain them, and they do what they need to do to pay the bills.[6] That this equilibrium may not be what we would want it to be does not mean any gallery can unilaterally change it. This is what makes the current system so stable.

All of this has been about the actions of galleries: how do artists feel about this? One suspects many are in the dark when it comes to how their work is disseminated. It is little more than a platitude to say that artists would like to see their work have a broader footprint. The relevant question is what they would sacrifice to do so. Given this, one is reminded of the great quip by Margaret Anderson, the longtime editor of *The Little Review*, who at times failed to pay her poets. When pointed out to her, her response was that "neither do I consider it a good principle for artists to remain unpaid, it's a little better than for him to remain unprinted, that's all".[7]

Related to this, our collection was recently offered work by a successful artist, one well known for their association with social protest movements. I do not know the artist, but it would not be a stretch to imagine that one so socially engaged would like their work to be seen in such as way that it could influence debate. The show from which we were offered work had 12 works, each in an edition of 3, and priced close to 6 figures. I know this artist's market well enough to suspect that of these 36 items, maybe five sold. Of these, say two went to a museum where it might be seen at best a quarter of the time and the rest to private collectors, where it may shuttle

[6] The essay is largely about the constraints under which the gallery sector operates. It does not appropriate give credit to the many things that they do that are not motivated by profit - for example, the quotidian example of galleries showing art that has no hope of selling.

[7] Quoted in Liesl Olsen, *Chicago Renaissance: Literature and Art in the Midwest Metropolis*, Yale University Press, 2017.

in an out of storage. For an artist whose interests involve discourse on social justice, this seems strange.

What makes contemporary art so unusual that these issues arise? Price competition works best when sales are sensitive to price, as this gives producers more desire to do so. There are a number of reasons why this does not arise in the art market. First, collectors often find it hard to determine the quality of an artwork, and may use price as an indicator of quality. As a result, an artist whose work is offered at a low price may be perceived by collectors as low quality rather than cheap. A version of this is the logic that says that an artist who is this age, with this history of museum shows *should* be this price, even if his market is not there.[8] To do otherwise would be to suggest a stalled career.

A final, likely important, issue is that many studies over the last twenty years have shown how price transparency facilitates competition. When consumers can see how much a variety of sellers are charging for goods, prices fall and markets become more efficient.[9] The art market is the opposite extreme for price transparency. Prices are generally not posted, galleries typically have check lists without prices, and the ability to identify a reasonable price is something that involves a lot of experience and no little skill. In economic parlance, consumers face the kind of search costs that mute the ability to shop around.

All the above suggests that demand curves facing a gallery are inelastic, meaning prices would have to fall a lot for demand to rise significantly.[10] Allied to the data on auctions, this lead to the strong suspicion of galleries pricing in a way that restricts consumption. These issues are the standard stuff of market efficiency, where constricted supply reduces the welfare of potential *buyers*. One target for improving distributional efficiency would be to get more work to these individuals. However, let me suggest instead that how art is distributed has broader implications for contemporary art's reach in society.

[8]Pricing may also reflect that galleries (or artists) truly believe that their artist is better than does the market. That's why they represent them.

[9]Many of these benefits have been generated by internet search engines. This should resonate with most readers when they go online to buy a new TV or car.

[10]It is probably not coincidental that the fields of culture that truly have wide societal penetration - music and film - have pricing models where the cost (going to the movie theater, buying a CD, downloading a song) does not vary much with who performs it.

To set that stage, how narrow is the set that has a meaningful interaction with contemporary art? Beauty is in the eye of the beholder here, but suppose you met people on the street, randomly sampled from the US population.[11] How many people would you have to meet before you come across one who had more than the vaguest knowledge of contemporary art? My money would be on quite a lot. Locally (for me), I have been a member of the Chicago contemporary art community for a decade. It is a city of 2.7 million, in a state of 12.8 million. Yet if I had to estimate the number of people who engage with contemporary art in the city, beyond sporadic trips to a museum and those who work in the industry, it would probably number in three digits.

Just as noticeable are the demographics of those connected to the art market. Let me try to go beyond the obvious point that they are overwhelmingly the affluent. First, the United States has undergone unprecedented increases in income and wealth inequality during the last thirty years. We are all used to reading about how the wealthiest 1% have made out like bandits compared to the rest of us over that time. Based on a lot of individual observations, my firm belief is that primary market art prices (at least over the last decade) track the fortunes of that 1%, putting art further out of reach for most others. The art market is hardly sailing against the wind of inequality. Second, I talk below about the value of people interacting with art that one might see as part of one's daily life rather than as a buyer. The last two decades in the United Stats have seen a significant increase in economic segregation. Put simply, we don't interact with people in different income groups the way we used to, whether it be where we live, work, or socialize. Since the wealthy largely own art, this further narrows the orbit of contemporary art in private hands, as those who are not among the wealthy are now less likely to come across art than before.

Lots of activities have narrow interest groups. If it is because of lack of genuine interest, there is little reason to be bothered. Yet most people do not encounter contemporary art in their daily lives. A concern of the current means of disseminating art is that it may fail to engage people who would be predisposed to like it, but simply don't know that they are. I was that person not so long ago. Part of this is also informed by my experience with the collection I run. Many things have surprised me

[11] I do not know the situation in Europe well, so stick to talking about the US.

while doing so, but none more than the response of the inhabitants of the building. To that point, I had assumed I had an arcane interest, shared by few. Instead, their pride and enthusiasm is startling. Furthermore, this interest arose only by being exposed to the art: if there had been a vote a decade ago about whether the school should spend money on contemporary art, it would have been overwhelmingly against doing so.

There are many potential benefits to attracting more people to contemporary art, among them that some may become collectors. In this sense, the current outcome may be a loser for everyone. It is, however, well known that often the only way to attract consumers to buy a good is to have them experience it first. If this works for a new brand of toothpaste, then surely experience would help people connect with something as initially inaccessible as contemporary art. Here experience among newcomers would be from seeing art in their daily lives. Art then plays the role of a *public good*, where a transaction yields benefits to the third parties who get to see it. The problem with public goods is that they tend to be under-provided by the free market. A recent conceptually related example is advertising for anti-depressants. The pharmaceutical companies do so in order to get people to buy *their* drugs. Yet it turns out that these ads also make people more likely to visit their doctor, where they get other treatments for their depression. Because the pharmaceutical companies do not gain the financial benefits of these doctor visits, they do too little advertising.[12]

Think of this issue in the context of contemporary art. A gallery has a choice: produce a work in small edition, and price high, or expand supply with a lower price. By doing the latter, that work might be affordable for a setting that would otherwise not get it, such as a workplace, library, or even a friend's house. There is, however, a particular kind of public good called a *network externality*. The simplest way to describe these is as goods that need to be supplied in a critical mass to be valuable to consumers. To use an old example to illustrate the point, there is no point in me having a telephone unless enough a sufficient number of other people do too. Otherwise I have no one to talk to, and the object is useless.

Accessing contemporary art for the uninitiated is hard: most people simply do

[12]A more economically important example is education. We all benefit when others are educated: it increases our earnings, cuts down crime, and so on. This results in too little schooling, as people do not internalize these benefits.

not know what they are looking at. Unless they encounter it in some non-trivial way, that is unlikely to change.[13] For many people, experiencing contemporary art at first is like going to a foreign movie without subtitles, especially as much of contemporary art can only be understood in the context of what came before. If these potential art consumers know that it is worth persevering to get past this initial stage, this is not be a problem. If they don't, however, they likely will never do so, as their initial interactions have little value.

Decentralized markets with network externalities are prone to abject failure, in the sense that almost none of the public good is provided. To see this in the context of contemporary art, suppose that other galleries price and produce for exclusivity in the way outlined above, but that one gallery sees the merits of spreading the word. They have next to no reason to do so, because if they are the only one, exposing people to that little amount of art likely has no effect on them. More generally, there is an incentive for galleries to let others do the heavy lifting, and instead they pick off the top of the market by - for example - choosing an edition of 2 instead of the edition of 20 that would spread the word. This issue also relates to the inequality of access discussion above. Perhaps because of the issues above, those less economically advantaged rarely come in contact with the gallery system. If so, the only potential buyers for galleries are a group of wealthy patrons. What's a gallery to do? If it reduces prices, it would likely sell to the same clientele but get less revenue. It might as well price the art to that group's increasingly advantaged position. But if everyone uses this logic, the market for any public good fails and contemporary art's orbit remains narrower than it "should" be.

These coordination problems can be so severe that they can even rule out initiatives that are close to costless. Let's imagine that there is a benefit to getting artwork into, say, high schools. Here is an idea that might do this: whenever an artist makes a series of two dimensional works in an edition, an additional framed *uneditioned*

[13] To use more economic terminology, most of what we consume is characterized by diminishing marginal utility, where each successive unit gives us less pleasure than the previous one. For example, our first cup of coffee in the morning tastes better than our second. Some goods are, however, characterized by later goods being more pleasurable than the earlier ones. This is where a network externality arises and needs increasing marginal utility over some range of consumption. These often arise when we have to learn about the product.

copy of one more work would be donated to the local school district. It would have no resale value and its cost to the gallery would be little more than the frame. (I imagine many collectors would forego their 10% discount to fund this.) That way - at relatively little cost - impressionable youngsters get to live with art. Yet even such a costless thing is unlikely to work, unless somehow galleries can coordinate: if only a single artist or gallery donates, it would find its lone offering sitting in the school library, on its own, ignored.

Broadening access to contemporary art only works if people see it. This raises the thorny issue of where and for how long art is taken out of storage and put somewhere that it can be seen. There are two issues that constrain access here. First, the themes of pricing and exhibiting interact in a natural way: when someone pays say $75,000 for a piece of art, it is hard *not* to treat it in a way where avoiding damage of any type takes precedence over seeing the work. By increasing access though greater supply and lower prices, this margin would likely relax. The second issue is professional standards for exhibiting art. The collection that I help to run has work on mostly permanent display. I have wandered it with many people, and over time have become used to the "tsk, tsk" of art world professionals when some natural light falls on a piece that could be susceptible to it. Professional museum standards quite rightly emphasize the importance of avoiding any situation where art could be compromised in any way. Such standards are easy to implement as they are a bright line. My only point here is that there are also benefits to work being seen that might warrant a more nuanced balancing of costs and benefits. (No one is arguing for putting a 1964 Richter in the school gymnasium, or a photo in direct sunlight.)

First, to reiterate the point above, I fear that many who are already involved in the contemporary art world don't see the barriers to entry that most people face, and that passive exposure may be the only way to overcome that. Second, a primary part of the calculus for not over-exhibiting work is that future viewers will not get to see that work. However, the art world is much bigger than it used to be and perhaps there are simply too many artists for this to be the blanket rule. Let's do a quick and dirty calculation to estimate the number of "serious" galleries whose artists could adorn these pages. Many readers will be familiar with the website *Contemporary Art Daily*. (Disclaimer: I am a board member.) On the Venues component of their website, they list 850 galleries in North America and Western Europe. Their records for other parts of the world are sketchy, but if we added them we would likely reach north of 1200.[14] Suppose that each gallery has, on average, 15 artists and that each artist has 2 galleries. A simple calculation then puts the number of artists represented by these galleries at almost 10,000.[15]

The charade of the art market is that every artist is "among the most important painters/sculptors/artists of his generation" to quote the typical gallery announcement. Realistically though, how many of these 10,000 artists will future generations value enough to warrant not having work viewed more now? This could debated this ad infinitum, but I doubt most could get beyond 10% of that number. This issue is reinforced by an another phenomenon, the move towards Winner Take All markets, where a vanishingly small fraction of artists get the lion's share of rewards. As a result, the work of thousands of artists may be sitting in storage and studios rather than living in the world, in the hope of a notion of posterity that likely will never come. Living with that work now would be a gift to this generation.

I have a image of a denouement down the road. After many collectors shuffle off this mortal coil, their heirs are in a room, surrounded by their collection, much of which has been shuttered up in storage for a long time so that it does not depreciate. After the heirs realize that it has little resale value, someone asks "anyone want any of this?", and there is an awkward silence. Might it be worthwhile to loosen the reins a little on how work might be shown, to achieve the benefits described above?[16]

So far, I have ignored museums. The role for a wider dissemination of art has largely been delegated to them by the private gallery sector. Galleries grease that wheel by offering them the museum 20% discount rather than the usual collector 10%. This essay obviously cannot come close to describing the myriad of activities they do to extend the reach of contemporary art. Yet because contemporary art can be so inaccessible, one fears that for many it matters about as much to them as does the

[14]Some of these are not for profit exhibition spaces, and some have more than one space, but let's ignore that in what is no more than a rough estimate.

[15]This ignores the many fine artists without representation, of course.

[16]No well specified alternative is being proposed here. Any alternative would involve tradeoffs, not least to reflect the preferences of artists. Furthermore, a danger is that a great work is not recognized as such until much later, and that work is shown in less than ideal circumstances. It is also the case that much of the role of access would be focused on forms of art that are editioned.

Eiffel Tower. This is the backdrop for the arguments above to allow a broader subset of people to own art.

I should conclude by admitting that his piece has a degree of speculation, because there simply isn't information on some things one would like to know (prices especially). Despite this, seen from a height, this picture of how much art is disseminated is so surreal that it reads like a Gogol short story: gallerists treating their artists' work as so important that it is priced at a level where sales are infrequent, not produced in large quantity, and when someone does buy it, often it ends in a crate for fear it might get damaged. For a field where very creative people are trying to say something about the world, this is almost hermetic.

Perhaps this is as it should be, but disruptive innovation is the (tedious) catchphrase of management these days. Other field of culture, music and film, have certainly experienced these over the last twenty years. Far from the disruptive institutional innovations of elsewhere, the art market feel sclerotic.[17] Moreover, economic research over the last twenty years has shown many instances of how institutions that do not adapt over time can have catastrophic impacts, sometimes lasting over centuries. Allied to the fact that it is hard to see why there is something hardwired about what an artist does when picking up a brush or camera that should rule out most Americans from seeing it. As a result, I wonder if the answer lies not in what artists do, but rather in how it is disseminated.

[17] Even to the extent that if we wrote down a list of the "top" twenty galleries today, it would look little different to such a list two decades ago.