Reflections on Market Economics & Art: Is This History Repeating Itself?

*by Omar Yehia Donia**

Memories. Is History repeating itself? April 26, 2010, in Emirates Towers, Godolphin ballroom during Christie's sale; long forgotten memories of myself as an adolescent sitting in front of the TV screen stunned with an open mouth when they aired an auction result of a painting by Van Gogh's that sold for so many million dollars. One can imagine the effect of such a figure to a small mind. Why would anyone pay such an enormous amount of money for some paint on a canvas? As a child I couldn't comprehend, especially that we had a painter at home who did the evening classes of the Cairo Fine arts behind the back of our parents to become a painter, and definitely he was not selling any of his paintings for ANY sum of money.

Today, with twelve years private banking experience as a private wealth manager I do understand.

History

History repeats itself: Currently we are passing through a financial crisis –a financial meltdown as some professionals call it–, yet is this the first time? Is it going to be the last time?

Retrospective observation demonstrates clearly that there is a city that flourishes every decade; it was London in the sixties, New York in the seventies, Tokyo in the eighties, Singapore and the Asian tigers in the nineties and most recently, on the turn of the 21st century, "beautified" Dubai. These cities start with implied or explicit ambitions that turn with enormous speed into hubs for business; prices rocket sky high – especially of real estate–, people from everywhere start rushing to the new land-of-opportunity and a phenomenon of consumption Economy automatically follows.

Everybody is selling everything to anyone.

101 Economics, supply never really matches demand. I do remember waiting in a luxury boutique for over 20 minutes to be served (according to standard customer service point-of-purchase operating procedure I should have been served in a maximum of 90 seconds) to end up not served and leave, reason: too many clients and after all I was just looking at the tie rack, i.e. not a big spender hence better serve the lavishly spending then a wallet-humble client.

"Maslow's Hierarchy of Needs" is truly represented: people had moved from stage 1 of "Physiological needs (food and shelter)" to stage 2 of "Economical needs" followed by stage 3 of "Social needs" all in one go and now they are looking to satisfy their stage 4 of "ego" needs. They bought the house, secured a bank account and they through lavish parties for their social circles: those behaviours are substantiated by buying art. Suddenly there is a new breed of Art collectors, philanthropist and art advocates. There is also a stratum of entrepreneurs: buy any art today and flip it tomorrow, you'll make money and BUY your reputation as an art advocate and expert.

Supply is not matching demand, no problem, a new breed of artists is born, artists that are there to create anything to catch up with the demand.

Then one day the world wakes up; prices starts dipping, everyone is loosing money, if lucky they would be able to sell their mansions for a fraction of what they paid (if not, they either fortify to a bank, announce bankruptcy --or in worst cases-- even flee). Domino Effect? Probably: Customers stop buying goods, less purchases leads to less production, all leading to less pay and unemployment that leads to less saving and automatically leading to less investment. Some economists like to address this as "Vicious Circle of Poverty"; economies thus shrink.

The current meltdown is estimated at 3 to 4 trillion dollars loss in the wealth of the world.

(yes the difference in estimation is huge yet no one really knows)

Assets, Politics, Cities and Artworks

Art is an asset class by itself - what happens in art market is like a wave. Like the growth of the economies and rise cities to become hubs, art market has the same destiny. Unveiled records reveal today that In the decade that followed the end of World War II, State Department —in a quest to have an American art form during the cold war— allocated a substantial budget to finance —in enormous subventions—artists, critics and particular galleries to formulate and promote a "liberal" art capable of representing the free West; abstract expressionism and color field painting are children of such an intervention. The perception of art as investment is traced to the same period, with investors starting perceive and handle art as an investment vehicle not just decorative intellectual material.

In the sixties and seventies investors were paying the large prices for the dead masters till each ticket for a work become expensive. They then moved towards investing in contemporary living artists. The eighties saw again the large increase in prices of Western Contemporary art production; prices of Mark Rothko, Andy Warhol and Francis Bacon become so expensive that investors didn't foresee the exponential growth. It is noteworthy that price growth did exist yet not as buying at "X" and selling at "20X" 10 years after.

The early nineties were the years of discovering the artists of the ex-Eastern block, a wave that took around five years; shortly after was the time to look eastbound moving the price of Asian artist higher. With the turn of the twentieth century, one was capable of securing good art from the Middle East region, especially Iranian, at ridiculously cheap prices; one could have bought a Farhad Moshiri at USD 5,000 till 1997, when this again touched the 1 Million Dollar mark (Bonhams 2008 saw Farhad Moshiri's work "Eishk" sell at USD 1.048 Million) hence moving the ticket of Iranian art further upward.

Now the wave is exploring further inside the region; investors are buying Egyptian, Palestinian, Iraqi, Syrian, —and even art from the Arabian Peninsula— hoping to ride the wave from the very low. Indeed it may look like an ocean tidal wave that starts slow and week and keeps gaining momentum as it moves forward.

This tidal wave pattern is best demonstrated last April at Christies Dubai sale: let us not consider the most expensive piece of the auction: a Mahmoud Saeed that sold for 2.4 Million dollars. The fight for this piece can be described as a «Peacocks fight»: few rich buyers insist on owning the lot, pushing its price beyond all and any logical limits. That was perhaps a one-time-go that does not represent the real market value of the artist or the artwork. What is rationally to be considered are the other logical prices of Abdel Hadi El Gazzar, Tahia Halim and the Wanly brothers; those were —at maximum— only 20% of their current auction prices, only if one bought in 2008.

Art, for some, is an indicator of civilization, while for others is only an investment vehicle.

Questions and Observations:
The current situation has uncovered the following issues:

1. Is there a difference between good art that will survive, and that art that will eventually die (if not dead already)?

2. Is there a difference between the good artist who has the knowledge, passion, technique, concept and vision, and other artists who nevertheless manage to make quick financial gains during their lifecycles or their lifetimes due to professional marketing?

3. What would be the exact role of dealers and galleries in the promotion of authentic artworks and in the mediation between the artist and collector, museum and literature?

4. What is the current and future role of government bodies, foundations and art supporting organizations?

No answers guaranteed, just questions for reflection.

What happens next to these cities? It is quite probable that these cities are here to stay; they were built to last. The continuation of a city/country to be an attractive cultural hub is based on certain factors, among which:

- The state of the infrastructure.
- The level of education.
- The state of the healthcare system for long duration and sustainable projects.
- The presence of a commercial market.
- In the case of visual arts: the presence of a collector base, gallery base, museum base and flux of local art practices.

Figures:
1. These cities score high in the Human-Development-Index --an indicator set by the United Nations with components of life expectancy, infant mortality rate and level of illiteracy.

2. Prices had moved fast from “X” to 45/”X” and currently stand at least at 2”X” which will be the base of future growth. Some believe that we are at the bottom of the meltdown.

3. Still these places represent a destination for opportunity seekers.

4. Last but not least, with all the problems, these cities are still in much better situation than others; there continues to be business. My personal opinion: an exception of attractiveness is “London” due to the government Fiscal policies and huge sovereign debt – New York is not in a

much better situation though dynamics of the economy differ; at least a quarter of the world wealth is invested in the American economy.

The current melt down will pass. Is there going to be another one? Or is this the last? Most probably not.
Recessions will occur again and every 1012-years because the reasons will always be there. Perhaps it is inscribed in our DNA: the greed, coupled with eagerness to make fast money, and the desire to outwit the other, buying and selling, purchasing a painting or a diamond and selling at the first auction. Casinos and gambling host our instincts a fast and easy kill. Indeed we have short memory: had we learnt from an identical recession in the late nineties, perhaps we would have never faced the current one.
But isn't it all part of our human species?

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In 2006, representing a group of investors, he founded Egypt Oil and Gas (www.egyptoilandgas.com) a monthly magazine specialized in serving as information provider for the Egyptian oil and Gas sector. Four years later, and employing only 20 permanent staff, numerous corresponds and contributors, Egypt Oil and Gas managed to gain a leadership position for its genre in Egypt.
In 1997, Omar co-founded Contemporary Practices Art Journal (www.contemporarypractices.com) a specialized semi-academic art Journal that exclusively explores in serious professional essay contemporary art in the Middle East, Iran & Turkey. He oversees management through a mandate while being supervised by an international advisory board. He is also author of numerous articles about environmental management published by the Dubai Chamber of Commerce during the period from 1999-2002.