

DRAFT – PLEASE DO NOT CIRCULATE

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**Art as an Investment: the Financialization of the Art Market**

**DRAFT DISSERTATION PROPOSAL**

Presentation for Contemporary Art Workshop 10/22/07

**NOTE:** This is to be part of my dissertation proposal, and probably will be reworked into the first chapter of my dissertation. As the first group of art-savvy viewers I have presented to, I will have to ask you to bear with me as I illustrate phenomena that you will know in detail. I will also note that my background is that of economics, rather than art, so I will happily correct any errors that you may find.

### **Introduction**

Is artwork the priceless exhibition of cultural values, or is it a financial asset with returns comparable to stocks and bonds? A steady stream of articles about art as an alternative asset class in financial publications like the Wall Street Journal and Financial Times is one indicator of the growing interest in art for investment purposes. Art is “just like a normal investment,” according to one such article, except the only dividend is the enjoyment of having a piece of art on your wall (Bolger 2006). While the idea of artwork as a store of value is not new, the idea that it has a quantifiable value is a recent innovation. The intersection of art and money is interesting because it is an area with strong cultural injunctions about the “priceless” value of artwork, norms that often conflict with the idea of buying, selling and investing in art.

The modern art market has tended to work according to the rules of thickly embedded normative relations, rather than those of economically efficient markets. But in the last 20 years, there has been an influx of new buyers into the art market, buyers who consider themselves to be investors, rather than collectors. This growing entry of financial logics is the subject of my doctoral dissertation. My primary research question is to examine the factors that allow art to be constructed as an investment, including the evolving structure of the market, growing number of numerical indices for artwork, and how this financialization project relates to the rest of the art world.

I have focused on fine arts and artisanal crafts as places where market processes are complicated by culture, values and social structure. Although these are not the only places where

such phenomena occur, the intersection of art and auctions becomes quite interesting because it is an area with strong cultural injunctions about the “priceless” value of artwork, norms that conflict and interact with the idea of buying and selling the work. According to theories like those of sociologists Viviana Zelizer and Olav Velthuis (2003; 2005), this is due to a conflict between hostile worlds: the sacred area of cultural value and the profane or secular world of markets and prices. The idea of art as an investment is the polar opposite of this understanding of the priceless nature of artwork, by normalizing and rationalizing it into a more predictable commodity form.

I put the question of the boundaries between market and non-market goods, and movements across the boundaries, at the center of my research project. Through various social and political practices we recognize, implement, and shape the boundaries between market and non-market goods in modern society. We do work to create and maintain the boundary, and in other ways we do work to help goods to cross the boundary. Art sales are thus interesting because they are a place where the two worlds come together with regularity, requiring work to maintain the boundaries because of the contradictions of the two worlds. The growing “art investment” community, if it could be so named, further stretches the boundary and is creating new types of connections between art and the market.

Art as an investment is significant as an object of study because it helps to reveal the conditions that are necessary to establish something as a legitimate type of investment in people’s minds. One of my key problems of interest is how art can be constructed as a predictable and rational investment when only part of the market is able to be observed, with 60% of sales being private and not reported to any type of price service. My hypothesis is that legitimation and belief in art as an investment is more important than comprehensive measures of the art market. Furthermore, the entry of financial logics into art is enabled by the co-location of art and finance in New York and London, centers for both art sales and the global economy.

The use of art as an investment is also an emerging area. Although art has been a store of value throughout history, the idea that it has quantifiable, predictable value is quite new. From my initial interviews, I also heard that this is a developing market for art investment, and there were some failed attempts at art investment because “the market wasn’t mature enough to deal with on an institutional level. The art world wasn’t ready to be transparent... The market is still

in its infancy. It needs to build up, develop a track record, especially if the market falls tomorrow” (HW 2007).

I draw upon four theoretical approaches for my study of artwork as a financial investment. Those approaches are geographical, a science studies-type approach of the financialization project being undertaken, the institutional structure of the art market, and finally, a cultural approach to the contested meanings of art between the art world and financial communities. For example, auction houses provide a key role in facilitating investment activity, both with their willingness to transact with all buyers, as opposed to galleries, who might block what they perceive to be speculative activity, and also with their tendency to publicize sales prices.

In addition to the factors that have enabled the construction of art as an investment, I am concerned with the impacts on the traditional art world. One key concern is that while this investment circuit could be threatening to the rest of the art world, but may also be seen as a different logic of circulation, a different means of constructing values and prices. How do financial logics enter into the art world? How do they compete with existing understandings about the meanings and uses of artwork? Do they coexist or end up destabilizing the traditional art market?

### **Related Literature**

The “new economic sociology,” which is the foundation of my research, seeks to expand our understanding of workings of the market, especially by revealing the role of social structure in determining market interactions and conditions. Economic sociology was a traditional concern of sociology—Simmel, Marx and Weber all wrote important works on the subject—but sociologists had moved away from the topic until recently, when the field was reinvigorated by Stinchcombe’s *Economic Sociology* in 1983 and then Granovetter’s<sup>1</sup> work on embeddedness in 1985 (Keister 2002).

Although an economist will suggest that the places where the market does not behave as economics predicts are areas of market failures, the work of economic sociology seeks to understand when this is actually due to the existence of social and cultural processes, while other researchers suggest the constitutive role of social norms, behavior and sanctions in the proper

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<sup>1</sup> Granovetter, M. (1985). "Economic Action and Social Structure: The Problem of Embeddedness." *American Journal of Sociology* 91(3): 481-510.

functioning of markets. For example, Bernard Barber suggests that “markets exist and so does rational behavior, but both only in the context of what should be specifiable social and cultural conditions” (Barber 1995). These types of specifications can also be seen in the historical approach of Viviana Zelizer (1983; 1985; 1997), which she uses to locate economic phenomena in its social, historical, and cultural contexts.

This study of the cultures and sociality of markets also falls under the science studies of knowledge perspective, seen in the work on financial markets done by Knorr Cetina and Bruegger in their work on the attachment of traders to the market (2002b) and the ability of the researcher to study the global economy through microsocial relationships (2002a).

More closely relating to the art market, Olav Velthuis interviews art dealers and galleries in his book *Talking Prices* (2005), one of the few sociological studies of the art market, and develops an understanding of the art market as deliberately separated from typical economic processes of supply and demand. Drawing on the work of Viviana Zelizer (1983; 1985), he details two competing views that can help to elaborate the interface between art and money, the hostile worlds theory and the theory of independent spheres. In the latter view, “...economy and culture constitute two unrelated spheres. It is taken for granted that the price of an artwork is established by the "impersonal forces" of supply and demand; however, these forces do not influence the aesthetic or cultural valuation of art because price and value inhabit independent spheres.” On the other hand, the idea of hostile worlds of art and money suggests a contamination model, where “...relations between the two spheres are allowed for, but these relations lead price to contaminate the cultural value of art... [and] the market turns art into a homogeneous commodity whose value is in no sense unique” (Velthuis 2003: 183). This second view is the one typically held by artists and the elaborate structure of the art market can be seen as providing an acceptable way of selling culturally laden objects. For example, sociologist Peter Levin resolves the hostile worlds dilemma by suggesting that art is sold on the secondary market in a way that looks “enough like a commodity to allow for its sale, but not so much like a commodity that it loses its cultural importance. It is this balance... that allows art to maintain its status as [a] valuable, saleable commodity” (Levin 2007).

Other work looks at processes of valuation and contests of meaning. Charles Smith (1989; 1993) breaks ground in his study of auctions by suggesting that auctions serve as social processes for establishing “socially acceptable definitions of value and ownership.” These

struggles for value and meaning are also seen in the work of Jessica Winegar. Winegar finds that in the case of Egyptian art, the artists want control of the biography of their work (Winegar 2006a), and describes in the efforts of some Egyptian artists to keep their works embedded within their local cultural context, rather than being taken up by the disembedding Western art world (2006b). The question of the meaning of artwork, as a cultural object or commodity for investment, parallels this other struggles. TO ADD: MARC SHELL ON ART & MONEY.

### **Enabling Structures of the Art Market**

There are various players at work for art to be picked up as an investment. Auction houses, dealers and galleries sit at the boundary of the art world, by the buying and selling of work, they mediate and create this boundary. Yet there is a tension between galleries and auction houses, with the galleries tending to identify themselves with the artists, while the auctions can be seen as more aligned with buyers of artwork, of whom, art speculators constitute a new group.

According to previous research, there is a concerted effort by art galleries to erect a special boundary between sales they consider to be legitimate, and the “parasitic” sales of auction houses (Velthuis 2005). However, this protective boundary, while impacting the art world in meaningful ways, does not detract from the popularity of art auctions. To complicate matters, the popularity of auctions does not always imply that economic notions of supply and demand are always explanatory for the auction world. It too is subject fads and fashions, trends, information asymmetries and other “irrational” dynamics. Auctions are a primary transaction strategy for major works (excluding donations and gifts), and according to economic theory, auctions are the best way of determining prices for unique, non-commodified, and otherwise special goods, but as Velthuis (2005) points out, they are not a socially acceptable mechanism for first-time sales of artwork, which is the domain of the galleries.

So in terms of their function, we can understand art gallery sales and art auctions together as competing forces, albeit with somewhat different purposes. Elaborate structural characteristics are often seen in cultural production, for example, the special protective networks that are formed in art and music worlds. In music, Peterson & White (1989), who show the presence of an art world simplex, a social network that serves to protect working musicians from an environment of strong competition for jobs in this area of the commercial music industry. In the same way, our galleries, according to Velthuis (2005), employ a type of value construction that

paints works bought at auction as somehow less legitimate, opportunistic at the least, and perhaps even parasitic. Yet according to my auction informant (LH1 2006?), this is simply because they are in competition with one another for sales. The question of hostile worlds and permeable boundaries between market and non-market goods is thus complicated by the idea of market competition between the auction houses and galleries.

This boundary of the art world becomes more interesting, and problematic, as the numbers increase in magnitude, perhaps intensifying the “hostile worlds” conflict because of the sheer scale of the auction system and the new challenges that art investment creates. Sotheby’s 2005 sales totaled \$513.5 million, for a net income of \$61.7 million, while sales for just January of this year stand at over \$100 million. This sales volume is both alluring for my research, and threatening to the gallery system, which is the primary sales venue for first-time sales of artwork, and more connected to artists and institutions (Velthuis 2005).

Whatever the competitive situation, there is no doubt that auction houses benefit from art speculator. A higher sales price means higher commissions for the auction house, and more buyers at an auction tend to increase the final sales price.

### **Art Investment as a Financialization Project**

From the perspective of financial logics, art is being explored as an area of alternative financial investment, made more attractive in the wake of the collapse of the technology stock bubble in 2001. According to one investing magazine, art is “just like a normal investment,” except that “the only dividend that is earned is through the enjoyment and appreciation of having a piece of art on your wall or in your home” (Bolger 2006). Even brokerage houses such as USB and Citigroup have added fine art assets to their private banking operations (Uhlfelder 2003). But this understanding is not simply one seen in investment articles, one of my interviewees, who also owns an investment firm, suggested that art is “just like a stock” when I told him about my project, and was interested in starting his own hedge fund in artwork (DC 2007). In a piece in London’s Sunday Times, Edward Chancellor suggests that “it doesn’t take long for a hedge [hedge fund manager] who has spent most of his adult life in front of the Bloomberg to learn the ins and outs of the modern art world.” Whether this is true or not, the result of this increased interest has been a frenzy in the buying activity in contemporary art (Chancellor 2007).

While this idea of art as an investment is not a new trend—art investing has been seen in early industrial times to the more recent 1980s art bubble—there is a change in the way that artwork is able to be framed for potential investors. The creation of the Mei/Moses Fine Art Index, which began in the late 1990s and was first reported in 2001, tracks the sale prices of paintings, drawings and sculpture auctioned in New York City since 1875. The returns of the artwork in the Mei/Moses index are even compared against the performance of typical stock indexes, apparently outperforming the S&P 500 in the four decades prior to 1994 (Uhlfelder 2003). But while anathema to some in the art world, Mei and Moses are economists first, suggesting in their paper “Art as an Investment”,<sup>2</sup> that “art is comparable to government bonds as an investment, though it significantly under-performs stocks in the US.” While other economists have dabbled with analysis of the art market, the interesting finding from Mei and Moses is that they could show something statistically significant findings in a way that allows both predictive and comparative estimates of the returns of investing in artwork. These findings are so persuasive that their charts and statistics are often replicated by other sources for art investment.<sup>3</sup>

The numbers of the Mei/Moses and other price services tend to come from the auction houses, who publicize sales data and often put it into an easily downloaded form that can be processed with econometrics and statistics, allowing the use of predictive models and numerical analysis. Other services, such as the Art Price Index, provide aggregated auction price data for the various sales categories of art and antiques. The transparency of sales prices and availability of numbers provides sales data that tends to be obscured in the gallery system. This ends up as an input to art investors, data collection agencies, and financial firms, and can be dealt with using economics and statistics, allowing the use of predictive models, risk equations, optimization and other numerical analyses.

Despite these numerical indices and prominence of fine art auctions, some 60% of all art sales are private, and thus not visible to outsiders (HW 2007). In this respect the art market is more similar to the bazaar economy than an economically efficient market, and with a similar solution: art collectors deal with information asymmetries by developing personal relationships to certain galleries. This information problem is being dealt with in different ways by those

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<sup>2</sup> Mei and Moses, “Art as an Investment and the Underperformance of Masterpieces: Evidence from 1875-2000,” 2001.

<sup>3</sup> These charts perhaps take on the credentialing ability for the reality of profits in art investment.

interested in art as an investment, who may be more likely to buy information than to develop relationships with art dealers, and a number of art price services are available to this end.

While the numbers tell a persuasive story to potential art investors, who value (perceived) transparency and past result, making art into an investment requires additional factors. One of these is the facilitating role played by auction houses, who sell to the highest bidder, whereas prominent art galleries tend to allocate work according to existing relationships and block sales they see as speculative (Velthuis 2005). From the stance of art galleries, a buyer who is purchasing art simply for the investment potential is an unworthy client, and preference is given to true collectors, who are expected not to resell the artwork (Velthuis 2005), meaning that the auction houses are a more natural venue for this type of buyer, and the auction houses have eagerly taken to marketing to this new type.

Art as an investment can even be seen as too popular, as the entry of new speculative art buyers has bid up the price of contemporary art, and paralleling the shift in thinking about the real estate market of late, some recent articles have taken to predicting the popping of the speculative bubble in artwork. For example, Edward Chancellor points to an imbalance of supply and demand as a factor pushing prices, with a limited supply of paintings being chased by fat pocketbooks. However, he argues, because contemporary art has a replaceable source of material, this is cause for concern, because eventually “the supply of works by living artists will inevitably adjust to meet demand” (Chancellor 2007).<sup>4</sup>

In an interesting development, some of the auction houses themselves have become part of the global stock market. While Christie’s remains a private company, Sotheby’s is a publicly traded company on the New York Stock Exchange, trading at \$32.11 with a 52-week range of \$13.47 - \$32.27. Interestingly, this information came not from a search on a financial website, but from Sotheby’s own investor information.<sup>5</sup> This merger of art and financial investments is thus further complicated by the linking of the stock market to the auction houses, and the emerging financial instruments based on art.

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<sup>4</sup> Chancellor is also author of *Devil Take the Hindmost: A History of Financial Speculation*.

<sup>5</sup> <http://www.shareholder.com/bid/stock.cfm>, checked May 4, 2006.

### **Circuits of Value**

This auction circuit is deeply threatening to the work of art galleries and dealers, but, I will argue, provides a different circuit of circulation, a different means of constructing values and prices. While in the case of artwork, it is possible to think that it is “just like a normal investment,” (Bolger 2006), this understanding lacks the rich cultural meanings attributed to artwork from the art world. So the emergence of an investment understanding of the meaning and uses of art can be a competing logic of circulation. We might conceive of the normal art world circuit of art to be from artist to gallery to collector to museum, but the circuit of investment is from artist to gallery to collector to auction and back to speculators, rather than the museum as a final destination. Of course, artwork has not always ended up in museums, and these paths may cross, but what I will suggest is a growing area where art circulates for its investment value, with one result being that the price increases with sales, and the art is put out of reach for museums and cultural institutions to afford.

Some of the theoretical basis for this understanding comes from Viviana Zelizer who suggested the idea of “multiple markets” (1988), in order to address the typically flat economic understanding of a singular unitary market. More importantly, she describes how there might be another logic of circulation at work here, one that can be applied to financialization of artwork. In later work she details the concept of “circuits within capitalism.” She describe commercial circuits as including four key elements: 1) a well defined boundary, with some control over transactions crossing the boundary; 2) a distinctive set of transfers of goods, services or claims within the circuit’s interpersonal ties; 3) transfers that employ distinctive media and 4) ties among participants that have a shared meaning (Zelizer 2005). Zelizer’s approach suggests different cultures of meaning that are instantiated through specific economic transactions, and operate within a larger system. Although I do not agree with all of Zelizer’s assumptions about these circuits, the idea can help us to understand different types of more specific connections through the global economy, particularly that of art.

While Zelizer provides a somewhat positive description of these different circuits of value, in the case of art, I think an emerging investment circuit is quite problematic for traditional art world understandings.<sup>6</sup> Zelizer addresses the problem of hostile worlds by

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<sup>6</sup> Zelizer gives a flat definition of circuits within capitalism as “multiple partly independent circuits, each one incorporating a distinctive system of valuation into its bounded media, transfers, and social relations” (Zelizer 2005).

suggesting that participants in commercial circuits that invoke the hostile worlds doctrine “hide from themselves and others the extensive economic activity and the mingling of economic with intimate transactions that occur incessantly within commercial circuits” (Zelizer 2005), however, I believe it is necessary to problematize the creation of circuits, the mixing of circuits, boundaries between them, and the work that is done, for example, to try and keep the world of finance out of the world of art.

The idea of competing circuits of value is easily seen in the work of Olav Velthuis, who devotes attention to the schism between “promoters and parasites” or the art dealers and galleries vs. the auction houses. “Art dealers maintain that gallery prices, the prices of the promoters, are set with a long-term orientation in mind, focusing on... care for the artist; auction prices, by contrast, the prices of the parasites, are perceived as short-term prices, directed at maximizing profits” (Velthuis 2005: 89). By extension, we could paint the collectors as those buyers who are promoters of artwork, while art investors are merely engaging in speculative behavior.

What is at stake, at least for the art world, is not simply a concern of the overpowering force of money over meaning, but indeed, their continued economic existence and their ability to control the meaning of things, in this case, the meanings of works and art artwork. These contests of meaning are seen in the work of anthropologist Jessica Winegar’s, who suggests that artists want to have control of the biography of their work (Winegar 2006a). Winegar’s project is a complex study of the changing position of Egypt and Egyptian art in the global economy, as a nationalist project in an era of globalization, and privatization, and one that sees a multitude of actors and groups struggling against one another for economic activities and the control over their art and the meanings of their art, such as the contests between the younger artists against older in a changing of the artistic guard. Although complex, her logics of competing values and contests, of different actors and networks of meaning, do add to Zelizer’s idea of circuits. For example, in one iteration of a hostile worlds conflict, Winegar describes in the efforts of some Egyptian artists to keep their works embedded within their local cultural context, rather than being taken up by the disembedding Western art world, and in another, suggests that most Egyptian artists still feel that the state should limit the infusion of market values into all spheres of artistic production and consumption (2006b).

In my research I will ask how financial logics enter into the art world. How do they compete with existing understandings about the meanings and uses of artwork? Do they coexist or end up destabilizing the traditional art market?

### **Research Questions**

One of my key problems of interest is how art can be constructed as a predictable and rational investment when only part of the market is able to be observed, with 60% of sales being private and not reported to any type of price service.

I draw upon four approaches for my study of the art market and growing construction of artwork as a financial investment. Those approaches are geographical, a science studies-type approach of the financialization project being undertaken, the institutional structure of the art market, and finally, a cultural approach to the contested meanings of art between the art world and financial communities.

### **Hypotheses**

1. Geography matters: the intertwining of art and finance is a development that is enabled by the position of London and New York as primary locations for both art sales and for financial investment activities.
2. Framing art in predictable and rational ways, with numerical indices and statistical tools, enables people to view art as more legitimate as an investment.
3. A new type of organization has entered into the art world, one that assumes financial logics and key terms, and constructs art as an investment. There is the construction of a new circuit of value for art, made possible by art funds, art price services and other innovations.
4. Auction houses and other organizations interested in the legitimation of artwork as an investment have conducted promotional activity to this end, and this work is necessary for widespread “belief” in art as an investment.
5. The belief in art as a legitimate investment is more important than objective measures of the art market, solving the problem of non-visible sales.

### Art World Geography

The art market is not a single site, but a network of sites, people, and institutions of different sorts. It is located partly in cities, with New York and London as cities of the art world, and as I will research, cities of finance. In the words of geography, there is a spatial agglomeration or concentration of related institutions, businesses and secondary services, the way that the film industry is concentrated in the Los Angeles area or media has a concentration in Atlanta.

Because New York and London are major centers for both finance and the art world, this allows me to look at the intersections, overlaps, and contested boundaries between these two industries, both within the same city and spanning the Atlantic. While I cannot yet assert that this co-location was predetermined, it is certainly true that the effect of the co-location of art and finance is to strengthen these cities in their central positions in the art world.

### Changing Institutional Structure

Aside from the auction houses, there are a number of firms that allow an interface between the traditional art world and the growing area of art investment. These tend to combine financial logics with personal connections to the art market proper. These include art price services as well as other types of firms.

The most interesting development among these financial firms is perhaps that of the private equity fund in art, pioneered by London's Fine Art Fund. This fund works in the same way as a hedge fund for the investor- there is a buy-in and expected returns, but is different in that all the assets of the fund are artwork. The hedge fund structure is another enabling strategy for art investment; as an investment vehicle it provides various advantages to the investor in terms of diversification, expert advice and other risk reducing functions.

### Financialization of the Art World

Statistical measures of artwork's investment returns help to explain the growing number of art valuation services available online. For varying fees, services such as ArtPrice, ArtNet and even Mei and Moses' own Beautiful Asset Advisors, the "exclusive provider of the Mei Moses™ family of fine art indices"<sup>7</sup> will give you estimates about the value of your current or potential

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<sup>7</sup> Source: Beautiful Asset Advisors <http://s107117993.onlinehome.us/> (searched 11/2006)

artwork. With innovations such as these, the growing interest by financial service firms in the art market is less mysterious, as it becomes quantifiable.

This project of rationalization and framing of artwork as an investment is the core of my research, because this is what enables the changing definition of the meaning of artwork, painting it as a commodity with quantifiable, fungible, and predictable value. Despite 60% of sales not being reported, I will argue that the belief in art as a legitimate investment is more important than objective measures of the art market, solving the problem of non-visible sales. The construction of art as an investment is important because it gives a window into the type of work that allows the creation of a new type of investment, and a look back at the origins of our understandings of the stock market.

### **Research Design**

My research on the art market requires multiple approaches, due to the multi-layered nature of the art market. Artwork is recognized even by economists as a non-normal good, where the usual models do not apply very well.<sup>8</sup>

### Methodological Theory

I will take a qualitative mixed-methods approach, using interviews and ethnography at multiple sites, building upon the contacts that I developed in my initial research. In the last four to five months of the research, I will focus on analytical writing and finishing the work.

Although we cannot necessarily believe what people tell us in interviews (**SOURCES**), due to issues such as unreflexive habits and post-hoc explanations for behavior, for this type of work, the interview method will provide me with the greatest access to the greatest number of firms. I will therefore use the method, but with an understanding of its limitations and I will supplement this with participant observation and other forms of research.

I will be able to easily observe people by attending fine art auctions and gallery openings, which puts me into similar practices as potential art investors, though these events are of limited duration. I am also applying for short-term internship type work in relevant firms where I may conduct ethnography, as well as approaching field sites. At this point, I am being opportunistic

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<sup>8</sup> This may be part of the surge of interest in creating predictive models for the art market. It is a sort of undiscovered territory that may prove able to be colonized by modifying the prediction models that are now being developed and used in the stock market.

about where to first conduct ethnographic research, but because the art world is one characterized by networks and personal relations, I will be able to be more strategic about research sites once I have established myself.

**TO ADD SOME MORE ABOUT DRAWING UPON GROUNDED THEORY.**

### Research Plan and Timetable

The art world is centered in two cities, New York and London. I will conduct eight months of field research in New York, moving to London in September 2008 for 12 months of research in the United Kingdom. I began my London art market research with several short trips to the United Kingdom, where I attended auctions, conducted initial interviews with art market organizations, and developed potential research sites.

In the United Kingdom, I will conduct 30 to 60 interviews with people working in the organizations related to the art market, including galleries, auction houses, news organizations, and art investment services. I will take a qualitative mixed-methods approach, using interviews and ethnography at multiple sites, building upon the contacts that I developed in my initial research. In the last four to five months of the research, I will focus on analytical writing and work more closely with the Nottingham geographers, although I will be attending department seminars and workshops throughout the year. I have completed all the requirements for the PhD, have IRB approval, and will submit my dissertation proposal this fall. I plan to complete my dissertation by fall 2009.

### **Findings from Previous Research**

Aside from reading about the art market in financial papers and academic work, in a pre-dissertation research trip to London, I was able to interview representatives from an equity fund in artwork and an art pricing service. One of my first questions in embarking on the topic of art investment was about whether the art investor was a distinct category. I wondered why people might be buying artwork and whether they might have a mixture of motives, both profit-seeking and art collecting, as in the case of a home buyer. No one wants to buy a house that will depreciate in value, yet they want something that will be emotionally compatible. What I found was surprising: for clients of a London art fund, perhaps about 40% of the clients were also interested in the art, but they were all interested in the money (HW 2007). For an art pricing

service, my interviewee thought that “about 70% [of our clients] are interested in the art, and that might change. People come in already interested in art and the market, and these people are the ones who can find [our art price] reports useful. We’ve not yet cracked into the type of “new buyer” the art speculator” (AP 2007).

These interviews also supported the idea that art investment was a developing market. For example, ABN had tried to start a fund of art investment funds, and my informant thought they had been weird, acting too soon to suggest a fund of funds, when the only ones that they were able to do due diligence on and recommend were the China Art Fund, which folded, and the Fine Art Fund. I kept hearing “the market wasn’t ready for it” in relation to this fund of funds and the idea of a futures market in art. She suggested that people are trying to speed the market, with things like art derivatives, like this fund of funds of ABN, but that this was way too soon, possibly 20 years too soon to recommend this, “because you want to have a bunch of funds and want to be able to make choices between them and need track records to do this” (HW 2007).

There have also been a number of art funds that opened shop and failed. When I asked my art fund informant about this, she suggested that “The market wasn’t mature enough to deal with on an institutional level. The art world wasn’t ready to be transparent... Institutions need more transparency for investors. Secondly, many were too ambitious, maybe the demand just wasn’t there... The British Rail example is the only real case study and this is too little evidence. The market is still in its infancy. It needs to build up, develop a track record, especially if the market falls tomorrow” (HW 2007).

In my interview with the art price service, I also asked if there was a financialization of the art world taking place. “Yes, but this is not new. The tools available are there though, indices, the availability of data, that makes it quite a bit easier to say it’s a productive way of looking at it. Buyers are inclined to look at the market in a similar way to markets they’re already in (investments they’re already in.) Is this sustainable? We need a few more years to demonstrate. It could go under tomorrow. But maybe it’s here to stay” (AP 2007).

## **Conclusion**

I hope to explore the new linkages between the financial world with the art market in New York and London. While there is some work on art auctions, primarily from the economic side, and a good deal of work about galleries, there is a lack of work about the meanings and workings of art

auctions and art as an investment. From the perspective of the new economic sociology, which considers the importance of social structure and embeddedness, I hope to trace a theory that considers the monetary and market functions of art sale along with the social structure, positing the development of an art investment circuit.

Is art the precious expression of culture, able to be bought and sold, but in essence, priceless? Or is art a new type of investment, an expensive wallpaper that may later be traded for a profit just like stocks and bonds? Furthermore, how do buyers resolve the contradictions raised by their acquisition of artwork at auction? The increasing entry of financial service firms into the art market and growing project of rationalizing artwork as a “normal” investment is also interesting for the problems and contradictions that it creates for the traditional understandings of the art world. The existing structure of the art market also helps to enable this trend. For example, auction houses contribute to art as an investment, because they are quite happy to realize the additional sales fees for speculators who jump into the art market.

Art as an investment is significant as an object of study because it helps to reveal the conditions that are necessary to establish something as a legitimate type of investment in people’s minds. This investment circuit could be threatening to the rest of the art world, but may also be seen as a different logic of circulation, a different means of constructing values and prices.

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