A Handbook of Cultural Economics, Second Edition

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Art dealers

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Art dealers mediate supply and demand on the primary and secondary markets for art. In doing so they compete with other intermediaries such as auction houses, or with artists themselves, who sell their work directly out of their studios. The work they sell may range from prints or other multiples worth several hundreds of dollars to multimillion-dollar works of art by old and modern masters or contemporary celebrity artists. At the high end of the market, some dealers predominantly sell to a small fixed club of wealthy collectors who have expressed loyalty to them over a long period of time. At the lower end, art dealers may cater to the demand of a relatively anonymous group of buyers who are interested in acquiring a piece for decorative reasons or as a souvenir of a tourist trip. Almost invariably, dealers are small-scale enterprises employing only a few people, with a single owner who also operates as managing director. The rare exceptions are large art dealers in the centres of the global art market, New York and London, who run several exhibition spaces and may have over 50 employees. Apart from labour costs, the main expenses art dealers incur are rent and the inventory they may have in case they sell from stock (Shubik, 2003). Since banks are often reluctant to provide capital to what is considered to be a risky enterprise, many dealers attract capital, for instance by renovating their exhibition space or to add works of art to their inventory, from so-called backers. Frequently backers are loyal collectors who may have a stake in the dealership. Frequently backers are loyal collectors who may have a stake in the dealership. Barriers to entry tend to be low: in most countries, no special licences or diplomas need to be obtained for an art dealer to start a business, while start-up costs are relatively low as well. Given their private nature and the absence of public listings, little is known for sure regarding art dealers’ revenue and profit rates. From surveys in some national markets, the average annual revenue seems to be several hundred thousands of dollars annually. For the world’s largest and most prestigious galleries such as the Gagosian gallery and PaceWildenstein for contemporary art or Johnny van Haeften and Otto Naumann for Old Masters, revenues are estimated to be tens of millions of dollars.

Since dealers often need to establish new markets for artists who lack a solid reputation or whose reputation has deteriorated, they may start to make sales only after a long period of time. According to anecdotal estimates, more than 50 per cent of the dealers do not survive the first five years. Even when their enterprise fails to make money by then, a partner’s income, pre-existing wealth or side jobs may allow art dealers to continue their business longer than would be the case with loss-leading firms in other markets. Indeed, for some art dealers their enterprise is more of a calling, a hobby or a social pastime than a rational means of making a living.

In spite of the strong competition, art dealers, especially on the primary art market, may in practice be engaged in monopolistic competition: they often represent artists on an exclusive basis, at least within a predefined geographical area.
explicit contracting leads the parties into the language of moral obligation, with reputation the insurance of reasonable performance in the absence of legally binding obligations (Caves, 2000, p. 41).

In the past, economic exchange between artists and their dealers took other forms than consignment. In the pre-modern visual art world, dealers occasionally employed artists to make copies of a popular original image. Apart from dealers, courts and patrons frequently employed artists. In the present day, employment relationships are observed only at the lower end of the market, where art is sold by art gallery chains or art whole-
salers. The artists they employ produce standardized artworks in semi-mass production.

Another type of exchange between artists and dealers is direct acquisitions. After property rights are transferred by the artist, the dealer can decide when and at what price the artworks will be sold to a collector. For instance, s/he may decide to keep artworks in the inventory if s/he wants to speculate on future rises in the price of an artist’s work. Within this system, however, the dealer runs the risk that the economic value will never be realized. This system of direct acquisition has been referred to as the French system, since it was mainly used by French art dealers in the late nineteenth and early twentieth centuries. Nowadays, some dealers with extensive financial resources still buy works directly from artists if they consider the market for these works to be firmly established.

**Gatekeepers to the art market**

In order to be successful, a dealer needs to have a discriminating taste, a strong network within the art world to acquire information regarding promising artists or the where-
abouts of valuable works of art, and clients who may be interested in them. Normally, dealers have developed both this taste and this network before opening their business, for instance, as art collectors or during a failed career as artists themselves.

On the primary and secondary market, dealers actively need to convince collectors of the lasting economic and artistic value of the work they offer. On the primary market, dealers may invite them to the artist’s studio, to public exhibitions featuring the artist, or to dinners with other collectors and artists whom the gallery rep-
resents. Dealers on the secondary market may, for instance, take collectors to museums in order to further develop their taste and to embed the works they sell in a wider art-
historical context.

Especially on the primary market, art dealers play many other roles than just matching supply and demand and making sales. They also serve as one of the main gatekeepers to the art market: they make a selection of the many artists who seek to be represented after leaving the art academy. Dealers furthermore have a public role since most of them run exhibition spaces that are, without charge, open to the public. Art dealers who operate on the primary art market furthermore ‘promote’ the artists they represent. This means that they regularly organize exhibitions that usually last six to eight weeks. They bring the work of artists to the attention of cultural institutions and independent curators, and try to make sales to museums and stimulate museums to organize exhibitions involving the work of these artists. Art dealers also encourage art critics and art historians to review their exhibitions, or commission them to write catalogue texts.

These activities underscore on the one hand the cultural role of economic actors like art dealers, and on the other hand the economic role of cultural institutions like museums and the art press. Indeed, with their manifold relations to other economic actors in the visual arts, art dealers are the central nodes or the ‘crucible’ of the art world (Fitzgerald, 1995). The economic rationale of these promotional activities is that they enhance the economic value of the art sold in the gallery. For two reasons, however, these promotional activities may not be undertaken or take place to a lesser extent than would be optimal: first, if an artist is represented by more than one dealer, free-
ider problems arise. One or more dealers may abstain from investing in costly promo-
tional activities while profiting from the activities undertaken by others. This is one of the main reasons why dealers often insist on representing artists on an exclusive basis. Second, promotional activities are by and large specific to each artist. This means that once the consignment relationship between the artist and the dealer is terminated, the dealer’s costs related to promotional activities need to be considered sunk.

Relationships between dealers and artists may be terminated for various reasons, but the most frequent are that an artist does not sell, in which case a dealer may want to ‘drop’ him/her; or that the artist, once s/he becomes successful, moves on to or is ‘stolen away from’ the gallery by a more established, often more commercial dealer who offers to represent the artist on more favourable terms and who has the network of clients and cul-
tural institutions to further develop the artist’s career. In fact, a division of labour exists between explorer galleries, which start with young, new artists with no market whatsoever, and commercial galleries, which work only with artists whose markets are already firmly established (Bystryn, 1978). While the latter may outperform the former in terms of revenues and profits, the former’s esteem within the art world tends to be higher.1

**Note**

1. When it comes to types of dealers, economists and sociologists have come up with similar distinctions between traditional and entrepreneurial dealers (Medin, 1967), between dealers motivated by symbolic and those motivated by monetary rewards (Bystryn, 1978), or between dealers who sell popular and those who sell high art (Fitz Gibbon, 1987).

**See also:**

Chapter 4: Art markets; Chapter 5: Art prices; Chapter 48: Poverty and support for artists.

**References**

Bystryn, Marcia (1978), 'Art Galleries as Gatekeepers: The Case of the Abstract Expressionists', Social Research, 45(2), 390-408.


Fitzgerald, Michael C. (1995), Making Modernism: Picasso and the Creation of the Market for Twentieth-


Further reading
For sociological studies of art dealers, see Moulis (1967), Platter (1996) and Velthuis (2005). For a history of the profession, see Thurn (1994) and Goldblatt (2005). For studies of individual art dealers, see Russell (1999); Rewald (1973) and Gimpel (1967). For interviews with art dealers, see Klein (1994) and Coppet and Jonas (2002).

On art markets, suppliers and buyers of works of art exchange cultural objects such as paintings, antiques or sculptures. Within some market segments, such as the market for contemporary art, the objects are directly supplied by the artist, who sells them out of his studio or through a gallery. In other cases, for instance within the market for antiquities or for works of art by deceased artists, suppliers are private collectors or public institutions who want to part with these pieces. Often, intermediaries such as auction houses, art dealers or art consultants are involved to match supply and demand. In 2007, the latest year for which figures are available, the size of the art market was estimated to be $48.1 billion worldwide. This figure, which includes both dealer and auction sales and comprises fine art as well as decorative arts and antiques, was the highest in the history of art markets. Geographically, the art market is dominated by the USA, with a market share of 41 per cent, followed by the UK with a market share of 30 per cent. After World War II, a division of labour emerged between the art capitals of these two countries: in New York the market for Impressionism, modern and contemporary art is concentrated, while London has developed a comparative advantage when it comes to Old Masters. France, until World War II, the centre of the art market, has recently been surpassed by China as the third-largest art market (the latter’s market share is 8 per cent). Between 2003 and 2007, the art market grew spectacularly by 311 per cent overall. This was partially caused by new demand from emerging economies, such as China, Russia and India, that gradually became part of global art markets (see below) and by the strong growth of high net worth individuals in Europe and the USA.

Within the auction market for fine arts, Impressionist and modern art has long been the most important category, but in 2006 it was surpassed by contemporary art, defined as art made by artists who were born after 1945. In 2007, contemporary art contributed more than 20 per cent of the annual turnover at both Sotheby’s and Christie’s. Between 2003 and 2007, the contemporary art market grew 851 per cent, more than double the average growth of the art market over that period. It is likely that following the financial crisis of 2007–08, the size of the market has shrunk. Indicatively, price levels for contemporary art at auction decreased by 27 per cent between January and December 2008 (McAndrew, 2009; Artprice, 2009). As in previous bust periods, auction houses have reported higher rates of lots that remain unsold.

Motives of buyers
Three different motivational categories can be distinguished for buyers within art markets. Some are primarily motivated by reasons directly related to the work of art itself: people may buy art because they find it aesthetically pleasing, because they seek to decorate their interior, or because they have a profound artistic interest and are building up a collection of artworks. A second set of reasons is financial: art may be bought as an investment, a store of wealth or as a hedge against inflation. The speculative motive