

The Existing Problems and Solutions in the Current Art Market

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Abstract

In the recent two decades, more and more people are joining the art market, but the problems in the market are so obvious that many consumers and businesses are suffering. This study presents the characteristics of artworks and the art market and discusses the pricing of artworks as well as some existing problems in this market. It reviews recent studies in these fields and found that the artworks have some economic significance, and at the same time many economic problems arise in this market. This study contributes to the current market turmoil and provides some existing management methods and solutions to problems. This paper mainly adopts the research method based on the previous paper, integrates and summarizes many of the mentioned market problems, and proposes a rational solution in combination with existing laws and regulations.

Keywords

Artwork; Market; Price mechanism

Introduction

Nowadays, more and more people are involved in art-related activities. From the most popular ones, visiting exhibitions and museums to economic auctions and art investment, the art market seems to expand faster than ever. In this situation, it causes many problems and loopholes in the art market, and these potential issues often make consumers and the dealers in the market feel at a loss or difficult to avoid. For example, works of art are obtained illegally. Meanwhile, the price of these works in the market does not reflect their actual value. Furthermore, the existence of a black market may lead to the failure of the market mechanism which makes consumers and investors step into traps.

Scholars focus on analyzing different types of existing literature and how to maximize the interests of the market. For example, the article talking about art pricing in China has given some suggestions on how to improve the price mechanism of the art-craft (Zhang, 2017). Meanwhile, Zhang (2019) argues that there are several modes, the article mainly talked about several modes of the Chinese investors, and this

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article is useful to guide investment in the market. In these documents, the common point of the above studies is that they take the view of the consumers. These relevant articles show the contents of the primary or secondary market of works of art, but these studies about the potential problems and possible optimization schemes of the art market are rare. For example, regarding the price mechanism, most of the articles will focus on the current price mechanism and tell the customers to overcome the problems, but they lack suggestions on how to improve the existing markets and most of them are written in a single view of the consumers. So it is valuable to investigate these questions from the perspectives of market participants. Therefore, the focus of this study is related to the discussion of these potential problems and corresponding optimization schemes. This paper will focus on these problems, such as the illegal sources of artworks, the chaotic phenomenon of the regulation, and the unreasonable pricing from the perspective of both collectors and operators, and put forward feasible schemes to further fill the existing loopholes in the art market.

Practically, the article will carefully discuss each relevant potential problem, which has a certain reference significance for market operators and investors. It can tell both parties how to avoid risks and how to reduce the possibility of stepping into market traps. At the same time, this article can also help practitioners improve their awareness and professional ability to some extent, and guide the development of the art market on a right track.

This article has relatively little literature to refer to, so there is still something worth continuing to study and revise. Furthermore, because market environmental factors are highly variable and uncertain, more research is needed

to examine the market in combination with the present situation, which will make the overall article more relevant. This article can be applied to market management, providing some guidance and assistance to both operators and consumers, thus avoiding many trading traps. Considering the lack of authority over much of the information, most of the references to the solution are existing legal provisions.

This article will be discussed in two parts, the first part is aimed to explain the existing problems in the art market, including the illegal access to the art-crafts and the loopholes inside the process of trading, such as the inflated price of art-crafts, the ethical problem of artwork trading and the criminal behaviours related to the whole market. The second part will be talking about the solutions, which are compared, to every single question that is described in the first section.

Methodology

This article references recent research articles, including articles on the Chinese art market, articles on the economic value of art symbols, articles on art valuation and pricing, and related literature on the bubble of the art market. The keywords of the article are "artwork" and "market", which run throughout the full text. The term "artwork" clearly identifies the subject of the article's research, while the term "market" provides more economic and management-related research directions. When searching, it mainly uses a number of well-known mainstream literature platforms, such as CNKI, sci-hub, and other intellectual property sites. During the writing process, I also looked for various legal websites to refer to. As I refer to the literature, I have also noticed some year limitations, which, in order to better match current market developments, I have limited the years of reference to nearly ten years to ensure the timeliness and referenceability of my article.

Art Works

Before discussing the current art market, it is very important to know what artwork is and how to define it. According to the definition given by "Merriam-Webster", an artwork is a product of artistry. Although there is a literal explanation, it is still difficult for investors, consumers, and market operators to distinguish what is artwork. Therefore, it is very important to summarize the characteristics of artworks.

Features of artworks are various but can be concluded into four main characteristics according to the reference book edited by the Chinese Academy of Fine Arts. The first one is that the artworks have their uniqueness. It means that the ideas and concepts of different artworks are verified by individual artists. For example, if two artists create very similar artwork, there will be an argument about who is the "copycat". Secondly, the artworks are not made to be practically utilized in daily life. Works of art also have certain non-practicability. The creation of art is not necessarily to serve real life. The birth of many works of art is only to reflect a spiritual product, such as the religious paintings, the propaganda or the expression of the artist himself, not the practical significance of this thing. The most fitful case here is the religious paintings. Those paintings are full of religious meanings but they don't have a certain meaning in real life. In addition, works of art also have certain non-regenerative features, which can be interpreted as non-reproducibility. The non-reproducibility of artwork is also a very important characteristic, distinguished from the first point, which focuses on the differences in the art style, but the non-reproducibility refers more to the difference between genuine and fake. It is easy to understand this content by using examples of those counterfeits. Though they have the same look as the real artworks, their value is still very low and meaningless. The last characteristic of

the artwork is the uncertainty during production. The uncertainty of art creation has always existed. This uncertainty can come from the impact of the social environment at that time or the changes of the creators themselves. At the same time, it may also be caused by economic reasons. The uncertainty of this art also brings a lot of valuation instability to the market, which will be discussed later.

Art has different levels of economic value, namely, artistic, historical, and economic levels. In terms of artistic value, many postmodern works of art are very suitable examples. Due to the short creation time, it still does not have historical value, but it may have high artistic achievements and artistic value. The second is historical value. For example, the relics of bamboo woven fabric found in China in March this year do not have very obvious artistic value. However, due to its very long history, the excavation of archaeological work makes this object appear in people's vision, which makes it a reference for the study of history and can help you further improve the development process of human civilization and history.

As for the collection value, the most significant collection value of works of art is the stationery in the antique market. Some are not very artistic, but due to their material and their chronological significance, this cultural relic has a certain collection value. The last is the economic value of works of art. The tulips in the Netherlands are good examples. Some artistic symbols can also bring benefits to the artwork market. For example, the article written by Ji in 2020, mainly discusses the economic benefits of Dutch tulips and works of art produced by tulips in the Netherlands. From paintings to the creation of other art forms, the Netherlands is undoubtedly the beneficiary of the symbolized tulip. Sylvia (2020) explores the economic benefits contained in the symbol from the

perspective of different works of art, and also analyzes the value that can be transformed into economic benefits brought by the tulips. Many derivative works of tulips do not have high historical reference value, but these works publicize the characteristics of the Netherlands to a great extent and turn these characteristics into considerable economic income. Similarly, the derivative products of works of art and artists also have certain artistry and create economic value. This paper focuses on the flower still life created by Ambrosius Bosschaert in 1614 and uses the oil on copper to study the relationship between the popularity of gardening and the impact of flower still life on the contemporary Dutch economy.

First, the formal elements of the painting will be analyzed, followed by a brief biography of Ambrosius Bosschaert, specifically discussing the impact on his art and his role as a pioneer in the school of flower still life painting. From this content, it reveals that the article is mainly discussing the history of tulips' introduction and development in the Netherlands, also combining the different economic conditions and prospects of the time, which leads to evaluation and reflection on the modern Dutch art market. The market impact of this article is relatively close to current market conditions and has some reference meaning. It can be used as a reference for evaluating the market. However, this article focuses on the economic benefits of tulips for the Netherlands. The useful information extracted from this research is only about the economic benefits that an artistic symbol can bring to a specific country, which is not completely summarized in the whole market environment. So generalizability should be concerned before utilizing this in the domestic market. Therefore, this article has certain reference significance, from which we can understand the relationship between art and economy, but it still lacks certain applicability.

Art Market

The art market can be divided into primary market and secondary market. The primary market refers to galleries and art fairs (including artists' sales and sales through brokers) directly obtaining works of art from artists, and recommending them to buyers through agents or self-auction. The secondary market refers to the art auctioneer collecting and purchasing the sold artworks through various channels, and finally organizing the auction and reselling them to other collectors (National Economic and Technical Qualification 2018 Edition). The operation of the art market can be understood as the circulation of the primary market and secondary market. From primary market auctions to consumers, they can choose to collect them or put them back into secondary market sales. Artists are responsible for making works of art and sending them to local auction houses for evaluation and external sales through themselves or agents. Then collectors can choose to stay in their own hands for collection or resell the works of art to art auction houses in need of secondary sales. Since the 1980s, China's art investment market has developed rapidly. The rise in art prices, market size, and transaction data, as well as a steady stream of art investment projects, all reflect the enthusiasm for art market investment. (Wang, 2015) The vision of the art market to leap from a minority cultural market to a public investor is the art market in the field of investment and financial market combined with its results. Developing China's art financial market is an important step in the connection between Chinese art and finance.

Determinants of the Prices of Artworks in the Market

Art pricing is mostly affected by non-price factors, such as the materials used to create the artworks, the concepts of the creation and the monumental significance of the artworks, etc.

At the same time, the loopholes of incomplete information and the non-standard consideration in estimating the value of art, which leads to a series of problems, such as falsely high or low market prices, exist in the current market. The article also emphasizes that it is to conduct research from the perspective of ethnology. The research results deconstruct the supply, demand, and multiple price factors of the art market, highlight the important non-price factors in the valuation and complicate the suppliers' requirements for the transparency of the art market. The sentences extracted from the original documents also fully show that the content discussed in this paper also includes the opacity of market information caused by unreasonable pricing, which leads to consumers being forced to accept the price generated by over-evaluation. The value of art itself may not be so high, which is caused by insufficient market transparency.

From the literature, many times, unreasonable prices are often caused by the opacity of the market. The paper (Coslor, 2016), discussed the long-term development of the art market, with high timeliness. It analyses participants' behaviours and environment in the art market providing insights into the structure and operations of the market, which is valuable for future research. Because the structure and operation mode of the art market will not change in a short time, this article in 2016 is still applicable to today's market environment. There are not many policy changes and changes in the behaviour mode of operators. In order to provide a reference for market participants and policymakers, many papers' introductions are based on the current situation of the art auction market. Zhang (2017) summarizes the main methods of pricing Chinese art and analyses the problems existing in the pricing of works of art in China and puts forward some suggestions for improving the current pricing mechanism of

China's art market. "Research shows that external conditions, scarcity of artworks and characteristics of the auction are the important factors to influence the price of art" (Zhang, 2017). This quote showed that the main body of this article consists of a discussion about the domestic market and the matched solutions. The article focused on the domestic part and it is helpful to solve the problem of unreasonable pricing, but because the article is considered from the perspective of market operators, there is still some research space. The release date of the article is not very close to the current time, so it needs some deeper research and consideration to have the significance of application. This article is suitable for studying the domestic art market and has a certain reference value.

Paper, Angelini (2018) investigates the price of new artwork when it is sold for the first time in the private art market and discusses the mechanism of price formation. Using bargaining methods, the author found that each agent's bargaining power is the key to determining the artist's preferred market channel, followed by her motivation to create new artwork. Using the artist's perspective to study the entire market makes the article look more hierarchical, and demonstrates the importance of professionalism in the marketplace, where sufficient expertise can lead to greater confidence among both consumers and sellers. This article provides more dimensions of reference because it uses a relatively new perspective, which makes the research more diverse and can be considered. At the same time, this article is close to the present time, so it still has a strong reference value.

The Existing Problems in Art Market

In the following sub-sections, the determinants of art pricing, the illegal actions in the art market, including the black market, price

manipulation, and high risks of artworks as investment, and auctions, will be investigated.

High Risk of Artworks as Investment Tools

Zhang (2019), mainly investigates a kind of speculation that existed in the art market before, that is, the differentiation of art stocks. Buyers do not need to buy the art itself, but only need to buy shares in the form of investment. This behaviour was stopped quickly by the government, but before that, it had caused a kind of damage to the whole market environment and destroyed the most basic trading balance of the market. This article also discusses the relationship between art and its related stocks, as well as the causes of stock market turmoil, and connects art with the economy and finance. In China, once launched, this trading model has been warmly pursued by investors. This rapid market growth has rapidly evolved into chaos and speculation in the trading market, forcing the government to deal with this model and finally stop it. Taking the Tianjin culture and art exchange of China as an example, we found that art can be used as an alternative investment tool, but the stock trading mode similar to the function of the stock and bond market is not suitable for art. The lack of legal basis and supervision of government agencies, coupled with changeable trading rules, also led to the failed trading mode of this art market.

Legitimacy of the Sources of Artworks

The source of artworks is another serious issue, which involves the legitimacy of the artworks. They can be obtained through legal ways such as artists, dealers, and auctions. It is noticeable that illegal means including theft, tomb theft, and black markets exist. Generally speaking, the sources of works of art should be considered before the valuation of works of art. If it is illegally obtained, in this situation, legal issues are far more serious than breaking the pricing

mechanism.

In the process of trading, buyers are often concealed or deceived, which makes them unable to evaluate the true source of this art, and finally causes moral losses. If the primary market sells art without knowing exactly where it came from, it is likely to hurt consumers. If consumers put the art back in the secondary market, this will result in more consumers and marketers getting the art from the wrong sources. Many problems and loopholes appear in the whole transaction process., In this circulation process of different market levels, There may be violations of laws and regulations from the art purchased in the primary market There are also problems of hype, falsely high pricing, and unprofessional employees in the secondary market which will be discussed later in detail.

Unqualified Workers in the Art Market

In the market, unprofessional employees will also have a certain impact. When the professional knowledge of employees is not enough to support them to identify and sell works of art, non-professionals may lead to the wrong pricing of works of art. For example, in 2019, the Hua Xia Times published an article about the cultural relics pricing scam. At that time, the price of the last fake was falsely high due to the unprofessional identification of cultural relics. At the same time, an old man paid a sky-high price of 300, 000 RMB because he didn't have the ability to distinguish the authenticity. From Angelini's paper, by analysing the pricing of new works of art sold in the private market for the first time, Angelini's paper also discusses the mechanism of price formation. Using the bargaining game method, we find that the bargaining power of each agent is the key to determining the artist's preferred market channel, and then her motivation to create new works of art. What's

more, if the employees in the market are unable to distinguish the authenticity, resulting in the flow of counterfeits into the market and damages the market environment. When fakes flow into the market, it may lead to the decline of the price of real collections and the loss of their original value. When the imitations and the artworks are confused together, collectors will suffer from losses, and sellers will be resisted by potential customers due to dishonest behaviour.

The Existence of the Black Market

The existence of the black market brings another serious problem. Because many investment banks and auction houses are very concerned about the origin and authenticity of works of art, they will not accept works of art from unknown or illegal sources. Therefore, at this time, the holders of this art can only sell through informal channels, and the black market is the most frequently selected one. Due to the lack of management in the black market, and not only in the black market, but there are also many chaotic phenomena, such as price speculation, malicious competition, counterfeiting, and shoddy. In the black market, collectors and individual sellers have no way to professionally explore the specific value of each art and collection, Black market is illegal so the normal pricing mechanism cannot be applied in such a market. At the same time, the black market itself is almost divorced from the management of the government and economic system. When there are problems, it is very easy to disrupt the overall market of a certain product, which will lead to a certain degree of losses for both buyers and sellers in this market. Similarly, works of art sold on the black market are difficult to enter the secondary market. This means that if the current collectors want to sell them, the artwork will still return to the black market or illegal art agents, and finally form a vicious circle and destroy the market ecology.

Possible Solutions

The above issues have seriously negative impacts on the healthy development of the art market. Therefore, this study proposes several possible methods that can be employed as solutions. Firstly, with regard to ensuring the legitimacy of the source of art, existing laws and provisions in China can protect the operation of the market to the maximum extent possible. For example, the Measures for the Management of Art Operations (Related Laws of China) have established several new systems to promote open and transparent transactions and protect consumers' legitimate rights and interests. One is the explicit guarantee system. It is advantageous to ensure consumers' right to know and promote fair and transparent transactions by requiring operators to specify the information on the author, date, size, material, and price of works of art. In the Consumer Rights and Interest Protection Law, article 8 states that "consumers shall have the right to know the truth about the goods they purchase or use or the services they receive." It protects one's legitimate rights and interests, and also protects the most basic market order, making the source of art legal, open, and transparent, thereby minimizing consumer and primary market sellers from fraud and unfair trade. Article 8 of the Consumer Rights Protection Act also shows that art consumers are not all professionals with the ability to identify and identify, so operators are responsible for providing proof of authenticity at the request of buyers. Some advanced countries also have clear rules for due diligence. Under the law, consumers are guaranteed maximum security in the course of their consumption.

In addition, it is possible to add appropriate curricula to apprentices' daily lives to their appreciation skills, first to motivate them to participate in the marketplace, and second to

increase their discretion in the future. As we can see from Angelini's article on the professionalism of workers, this question is a very important part of consumers' lives. It is clearly stated in the Consumer Rights Protection Law that the market should identify the responsibilities and obligations for evaluation. There have always been problems in the field of art appraisal. Identifying the responsibilities and obligations of appraisal is beneficial to standardizing appraisal behaviour appraisal and maintaining fair play in the market. When workers have some expertise and ability to evaluate, they can filter out a lot of fakes and identify the value of artworks, thus avoiding the problem of unreasonable pricing and making the overall environment of the market more organized. In China, the qualification examination for auctioneers is a nationwide qualification examination organized by the Ministry of Personnel to prepare professionals to conduct auction activities. Qualified persons who have completed the auctioneer qualification examination may obtain the Certificate of Practice for Auctioneers of the People's Republic of China and practice according to law. Therefore, market workers should also enter the market after obtaining the appropriate qualifications, reduce the number of unlicensed employees, minimize the generation of unprofessional appraisal results, and ensure that consumers are less likely to be deceived.

Next, in response to problems with the black market, only a small number of market regulators can monitor them, such as the Development and Reform Commission in China. In its notice dated January 19, 2022, the DRC stated that "the black market problem would be dealt with according to law, which would improve the market environment to some extent and reduce the vicious consumer behaviour of the black market." Likewise, more citizens should promote a sense of law in their daily

lives and avoid informal and illegal market transactions as much as possible, thereby cracking down on the black market and maintaining the proper functioning of market-price mechanisms. The level of standardization of the workers in the primary market is very important, and this affects whether consumers can consume openly and transparently, which also depends on whether the legitimate rights and interests of the artists will be protected. In a secondary-market environment, the most important thing to be regulated is the black-market mess, in order to reduce false prices and illegal trading.

Conclusion

To sum up, this article mainly studies some existing problems and possible solutions in the art market. Since the 1980s, a large number of investors and practitioners have poured into the art market. The market situation is mixed, and the primary market and secondary market lack strong supervision. As a result, many art sources are unknown, the practitioners are not professional enough and have no identification ability, and the black market operation leads to market loopholes. At the same time, these problems also lead to one of the most fundamental problems. Consumers may not only be confused by the chaotic environment and therefore be cheated, but also buy works of art at sky-high prices which do not reflect the true value of the artwork. In addition, the four characteristics of art-uniqueness, non-practicability, non-reproducibility, and uncertainty during the production and the three values of artworks — artistic, historical, and economic levels of values also need to be taught to the artwork consumers so that their cognition and appreciation level of artworks can be raised, thus they could better identify the source and quality of the artworks and avoid purchasing fake or illegal artworks. Most importantly, the government must strengthen

the supervision of the artwork market—issuing relevant laws to regulate the market, requiring all the artwork practitioners to take professional training courses and earn corresponding certificates.

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