

ART MARKETS OF EUROPEAN CITIES: FORMATION AND INSTITUTIONAL SUPPORT

Cultural development has always been an important factor of city development. The role of culture and arts in the economy was first substantiated by J.-F. Lyotard and J.Derrida. According to their research results, dominating sectors of the economy are service sector, knowledge-based sectors and creative industries. Besides, for the first time in economic science culture started being considered as a source of income [1, p.21].

The importance of arts and culture for social and economic activities and sustainable development of local communities has been recognized by UNESCO and Council of Europe publications [2]. This contributed a lot to the emergence of the concept of culture as a tool for regional development.

Art market is an important part of every city's cultural sector. It consists of the primary and the secondary art markets. The primary art market can be defined as a place where an artwork comes for the first time (at an art gallery, an art fair or an exhibition). In this case the price for the cultural asset is established for the first time too. Once the artwork is purchased on the primary market and the owner decides to sell it, it enters the secondary market. In other words, on the secondary art market works of art are being resold.

Art market is also an element of country and city brand. According to S.Anholt, the so-called country brand hexagon includes people, products, governance, tourism, immigration and investment, culture and arts [3]. From the point of view of T.Adams from the agency *Futurebrand*, forming a ranking of top brands, Ukraine has a generally poor performance in each category. However, he notes that the relatively strong performance in Ukraine concerns its history, culture and art. In addition, a bright visual image has always been promoting a positive

image of a country as a whole and of a city in particular. Therefore, an art market plays an important role in the development of national and local branding. Referring to the country brand, one should pay attention to the tourist attractiveness of the country and its towns. As for the cultural tourism, art market is undoubtedly one of this attractiveness' factor.

The importance of arts and culture in the development and promotion of the city can be seen in several ways:

- in terms of its inhabitants;
- in terms of its economy;
- in terms of its territory.

Summarizing the influence of arts and culture on the city development, M. Smoleń drew attention to the following aspects:

- direct impact on the labor market by creating new jobs in cultural industries;
- creating products for other sectors of the economy, related to culture (cultural tourism, education);
- increase of the city budget revenue directly from the sale of artworks on domestic and foreign markets, as well as taxes and fees from the organizations in the cultural sector;
- an increase in local budget revenues from taxes on organizations and persons involved in related areas (cultural tourism, trade, transport, public transport);
- attraction of tourists;
- element of local territory's and its industrial buildings' regeneration;
- creation of a positive image of the city and its promotion;
- attraction and retention of creative, talented people, the impact on the attractiveness of the city as a place of residence [1, p.70-71].

The regeneration of the urban territory in Europe and its industrial buildings is achieved by creating art clusters (cooperation between economic and cultural organizations and institutions) and cultural quarters in European cities. One of the newest examples of an art cluster is *Trans Europe Halles* – an association of cultural

institutions on the basis of industrial objects, or a European network of independent cultural centers. Founded in 1983, the network now brings together more than fifty multidisciplinary and socially engaged member centers throughout Europe. The association consists of 50 members in 26 countries of Europe [4]: WUK, Austria (Vienna), Halles de Schaerbeek, Belgium (Brussels), JOHAN Centrum, Czech Republic (Pilsen), Creative Centre Carnation, Estonia (Tartu), Korjaamo Culture Factory, Finland (Helsinki) etc.

A number of new cultural objects was created in European cities in order to revive old industrial buildings: Great Hall of pictures – an art gallery in old railway workshops (France, Province), the Centre of contemporary art „Winzawod”, established in an old winery (Russian Federation, Moscow), Art Centre Fabryka Trzciny, situated in the building of an old rubber factory (Warsaw, Poland), Mystetskyi Arsenal (the old military plant in Kiev, Ukraine).

In his research “From cultural quarters to creative clusters – creative spaces in the new city economy” G.L. Evans gives a comparative analysis of rationales for cultural and creative industry quarters, thus explaining the differences between them (table 1).

Table 1

Rationales for Cultural and Creative Industry Quarters

Rationales	Cultural Quarter	Creative Industry Quarter
Economic	Local economic development Visitor economy Branding Zoning Culture and regeneration	City-region economic development Knowledge economy Creative tourism Production chain Innovation spillovers
Social	Identity Ethnic quarter	Diversity Urban design and quality
Cultural	Historic preservation Conservation, crafts (skills) Festivals Cultural City	Creativity Design and architecture Showcasing / trade fairs Creative City

Source: [5, p. 32-59].

According to this table, the economic, social and cultural rationales for cultural quarters usually situated in historic districts, and the newly designed creative industry hubs, present quite different models of clustering. Therefore both of them refer to the art market and promote urban development throughout culture. As an example, MuseumsQuartier in Vienna covers a 60,000 m² large area and is considered to be the eighth largest cultural area in the world, uniting on its territory a range of installations and institutions: MUMOK, Leopold Museum, Kunsthalle Wien, ZOOM Kindermuseum, Tanzquartier, Architekturzentrum Wien, quartier21 and others [6].

The art market formation in European cities started in the XV century. Before that time works of art were sold on the basis of bilateral relations between the buyer and the artist (direct orders based on contracts). Such contracts defined the basic characteristics of the product and the reward of the artist. Thus, this award was a cash equivalent of the artist's work, and it matched the type of the ordered product, the quality of the final painting and the reputation of both parties entering into a contractual relationship. The concept of a market, by contrast, involves many buyers and sellers, a certain proportion of demand and supply.

The main principles of the art market functioning are the following:

- 1) Private property. The first owner of an artwork is an artist. The secondary art market operates through the process of ownership transfer;
- 2) Independent (free) prices. Prices on the art market are being formed under the influence of fluctuations in supply and demand;
- 3) Competition. Although each artist has his own style, yet on the art markets there is a certain competition among artists for the customers and art projects. Besides, a strong competition exists among collectors for the rare works of art. It could be explained with the fact that a collector may have just one chance in a life to buy a certain masterpiece. The mechanism of art auction trade regulates this kind of competition;
- 4) Offer of works of arts. To ensure the liquidity, the art market should have a sufficient supply of works of art.

It follows that the art markets of European cities have started to develop under the influence of all these factors. According to H. J. Van Miegroet and N. De Marchi, the process of art market evolution in Europe can be divided into several stages: the emergence of primary and secondary art markets, the formation of distribution channels, the international trade in works of art development, the emergence of art fairs and public art auctions [7, p. 69-122].

Speaking about the art market, one should distinguish the primary markets where the works of art are being sold for the first time from the secondary markets, where the paintings are being resold. The oldest primary markets in Europe arose in Florence and in Bruges, where the vast majority of offers was provided by the artists themselves. Secondary markets appeared fifty years later, with merchants as the main actors on them, hawking property as a consequence of inheritance or bankruptcy.

In the XV century, the main art markets in Europe were formed in Florence and Bruges. The art market development in Florence was characterized by the following features:

- the biggest center of Renaissance culture;
- a lot of orders for artists;
- organization of artistic competitions by the city hall;
- import of Flemish paintings by merchants of Bruges.

While the rich merchants from Florence were importing Flemish artworks, the permanent presence of merchants from the whole world in Bruges, the main trade center of Western Europe, provided the local painters with a rich customer base. It was followed by a number of other factors:

- highly developed administrative infrastructure;
- an authoritative guild of artists as an indicator of a high level demand for artworks;
- competition between artists encouraging them to lower prices, and quickly assimilate new technological methods and trends. This continuous improvement of artistic methods made it possible to supply the market with

works of art of continuously updated style that also caused a steady increase in demand.

The XVI century was important for the European art markets due to the formation of distribution channels. In this period of time the main centre of art trade moved to Antwerp as the main trade center in Europe. The art market development in Antwerp was characterized by the following features:

- guilds of artists of Antwerp. Antwerp guilds were less stringent than those in Bruges, they allowed to move from one guild to another, a collaboration between artists using different techniques, and most importantly, sales of products outside the studios of artists by art dealers;
- the organization of the permanent art market in Antwerp. Since 1445, the permanent art market is being financed by the city hall;
- 1540 – the establishment of the first specialized building for the sale of works of art. H. J. Van Miegroet and N. De Marchi concluded, that more than 17,000 new artworks appeared annually on this permanent art market [7, p. 69-122].

An active development of the art market in the cities of the Netherlands can be explained by the construction of channels that facilitated the distribution of works of art between cities. This network has facilitated the specialization of artists using in their favor the peculiarities of each of the local guild.

Throughout the XVI century, only painters were allowed to sell their artworks on the market of Venice, keeping art dealers outside the local market. This prohibition had two consequences: on the one hand, the artists had to divide their time between the two types of activity – creating works of art and selling them. On the other hand, this prohibition has favored the international trade in works of art as painters were looking for art dealers to sell their paintings abroad.

The art market of Rome in the XVI century was characterized by an active role of intermediaries and trade in works of art on the streets. Artworks were mostly consumed by the papal court and numerous pilgrims visiting the Eternal City. In

contrast to Venice, collections were formed by buying artworks from merchants or on the street, thus weakening the role of direct orders.

Before the XVII century, art auctions weren't a common type of distribution channels. Firstly, merchants used such a kind of sales to eliminate the unsold paintings before closing fairs to reduce transport expenses and customs duties on the way back. In the second half of the XVII century, it was allowed by the court of Lille to sell from the auction the unsold paintings from Antwerp at the end of the annual fair. Since then, art fair turned into a space where artworks could be exhibited before being sold at an auction.

The concept of an art auction was developed in Paris with the organization of public auctions within several days, publication of catalogs with previous estimates of works of art, and promotion of artworks and artists. All this contributed to the spread of information and dialogue between potential buyers and the organizers of the auction, highlighting the aesthetic pleasure derived from the contemplation of the picture as the main criteria of the art pricing, not issues related to the subject of the picture or the personality of the artist, and thus greatly increased the number of art collectors.

In the XXI century the geography of the European art market has changed a lot, the main art centers moved to the cities with headquarters of the biggest auction houses (figure 1): Christie's (London, Milan, Geneva, Paris, Amsterdam, Zurich), Sotheby's (London, Milan, Geneva, Paris, Zurich), Phillips de Pury & Co (London, Geneva, Berlin, Brussels, Berlin, Munich, Paris), Bonhams (London, Paris), Artcurial (Paris), Dorotheum (Vienna, Düsseldorf, Brussels), Koller (Zurich), Bukowskis (Stockholm, Helsinki), Villa Grisebach (Berlin) and others.

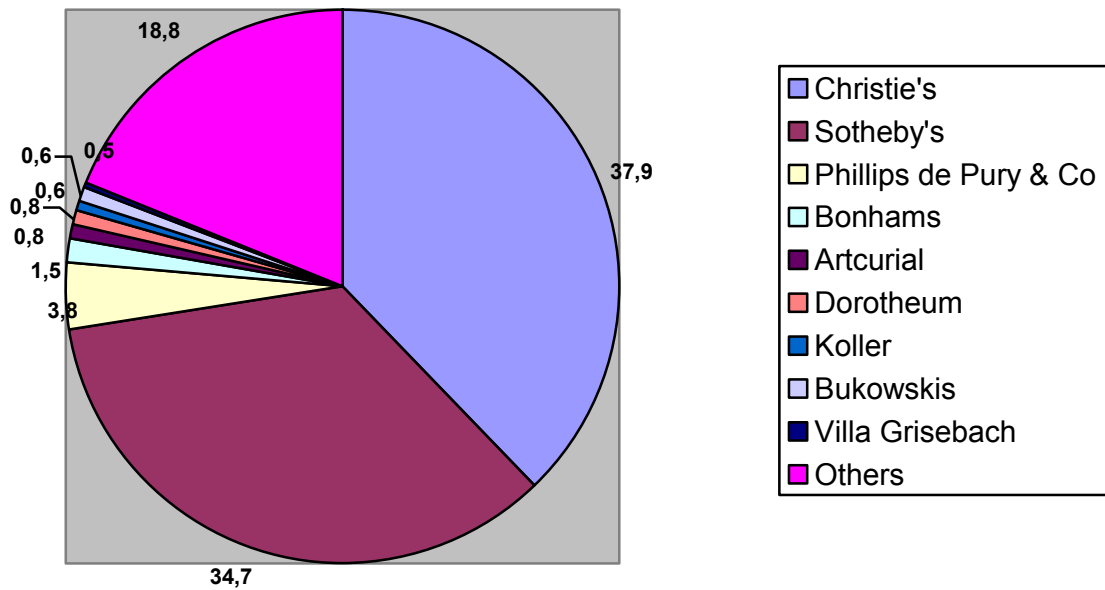


Figure 1. The main European auction houses' market shares by turnover, %, 2012

Source: [8].

The main art auction trade centers in Europe are followed by a number of cities with the largest art fairs (table 2). This kind of distribution channels is getting popular again and restores its market share.

Table 2

The largest art fairs in Europe, 2012

Art fair	City	No of galleries	No of visitors
Art Basel	Basel	300	65 000
TEFAF	Maastricht	265	72 000
Paris Photo	Paris	128	54 157
FIAC	Paris	180	70 500
Artissima	Turin	172	50 000
Arco Madrid	Madrid	215	150 000
Frieze London	London	170	55 000
Art Cologne	Cologne	181	60 000
Fiera di Bologna	Bologna	165	67 000
Art Brussels	Brussels	182	30 000

Source: [9].

The analysis of the art market evolution in major European cities allowed to determine the main factors of its development:

- uprising of middle class (bourgeoisie);
- the role of patrons and wealthy merchants;
- development of distribution channels on the art market;
- competition between artists;
- institutional support.

In the case of increased competition between cities it is important to create a positive image of the city that can be reached with the help of arts and culture. The development of the art market requires appropriate institutional frameworks. The institutional support is necessary to save transaction costs arising from the interactions between the actors of the art market (artists, art dealers, collectors, investors etc.).

The institutional support of art markets in European cities is provided on two levels: the local and the national level (or the level of European Union). In most cases, the local support is based on the strategic plans of local development. The cultural area is declared as an objective factor of development in strategic plans of many western European cities (apart from traditional cultural centers, these are Manchester, Glasgow, Liverpool, Rotterdam). In most cities the authorities focus on a particular branch of culture, which should be dominant in the strategy of development [1, p.68].

The financing of arts and culture as a part of art market institutional support is divided between local and national authorities. The experience of major European art markets has shown that the main sources of funding for arts and culture from the state budget are the following:

1. Direct funding of cultural institutions. This kind of funding is widely spread mostly in unitary states. It includes targeted transfers (in France) and grants (Sweden and United Kingdom);

2. General and targeted transfers to local budgets (in Norway and Denmark);

3. Joint participation of different levels of public authority in the financing of arts and culture. This kind of funding is used in France (the state, regional, and local budgets);

4. Public and private partnership in financing has become very popular in United Kingdom and France. As for the UK, the financing of the first artistic project is in proportion "budget : sponsorship - 1:1"; for the second project the ratio is 1:3 respectively. In France this ratio doesn't depend on the number of the project and is equal to 5:1, while the priority is given to finance the exhibitions of contemporary art.

Apart from the direct funding, the art market requires an appropriate tax support. This kind of institutional support has a lot of differences depending on the state cultural and tax policy of each European country. Thus, in France and the countries of Northern Europe 1% of the construction costs of public institutions is allocated for the purchase of works of art. Many European countries have provided a certain tax relief (on income tax) for the employees of cultural industries. In Ireland the relief for such employees is provided for 35 years. In France the relief is given to painters and sculptors. In Finland, grants for artistic projects are not taxable. Italy has introduced the new rules for the taxation of artists who have the right to choose the method of taxation. Belgium, in its turn, has lowered the VAT from 19% to 6%. Besides, the philanthropic contributions in cultural institutions are not taxable.

The priority of cultural policy in European countries in the XXI century is the stimulation of demand for goods and services produced in the field of culture, rather than the direct support of cultural organizations. Such a kind of cultural policy was first introduced in Netherlands.

A great contribution to the institutional support of local art markets in European cities is made by the "European Capital of Culture" Project. The European capital of culture is a European city chosen by the European Union, which within one year may present the cultural life of the city, the region and the state. The cities participating in this project are trying to take advantage of this opportunity and related funds (by 1.5 million euros from the European Union) to develop their cultural environment and diversity, so that they can attract more international

audience and increase their investment and tourist attractiveness. It's a great opportunity to change the city's image, foster urban regeneration, and raise its visibility and profile on an international scale.

The experience of Graz (Austria), the European capital of culture 2003, was very positive: within a year the number of its tourists has increased by one third, investment attractiveness has increased too, the structure of the Department of culture of the city has been changed (the citizens were involved in the process of city administration).

As for Ukraine, the institutional support of its art market has numerous problems that need to be resolved. The main obstacles to the further development of the art market in Ukrainian cities are the following: a complicated procedure of import and export of works of art; an inappropriate system of taxation and bureaucracy; an underdeveloped institutional framework; a lack of instruments of the art market analysis; an insufficient funding for artistic projects. These are the problems requiring immediate government reforms.

Summarizing, it is necessary to identify the main factors for the growth of local and regional art markets:

1. Increased share of middle class population of the region, the rise of wealthy collectors' class;
2. Favorable legislative environment, reduced taxes on the art market;
3. Development of the art market infrastructure.

The combination of public funding, intergovernmental and public-private partnerships provide the best cash flow in the sphere of culture, particularly under conditions of the state budget deficit. The success of the governmental support of arts and culture in many respects depends on the efficient use of capacity of the private sponsorship and patronage.

The formation of the environment conducive to creativity involves some protection against the direct administrative intervention. This is achieved by creating a wide network of independent brokers - professional associations, foundations and

public institutions that are responsible for the distribution of funds allocated by the state for the development of culture.

References

1. Smoleń M. (2005). *Przemysły kultury. Wpływ na rozwój miast.* – Kraków: Uniwersytet Jagielloński, 2005. – 248 s., p.21.
2. Our Creative Diversity: Report of the World Commission on Culture and Development. – Paris: UNESCO publications, July 1996. – 64 p.
3. The Simon Anholt official website [Electronic resource]. – Mode of access: <http://www.simonanholt.com>.
4. Trans Europe Halles [Electronic resource]. – Mode of access: <http://www.teh.net>.
5. Evans, G.L. (2009) *From cultural quarters to creative clusters – creative spaces in the new city economy*, [in:] *The sustainability and development of cultural quarters: international perspectives* (ed. M.Legner), p. 32-59.
6. MuseumsQuartier Wien [Electronic resource]. – Mode of access: <http://www.mqw.at>.
7. Hans J. Van Miegroet and Neil De Marchi (2006), *History of Art Markets*, [in:] *Handbook on the Economics of Art and Culture*, Elsevier Science, Amsterdam-London-Tokyo (ed. Victor Ginsburgh and David Throsby), p. 69-122.
8. The art market in 2012: a dialogue between East and West. - Artprice, 2013. – 88 p.
9. Skate's art investment review 2012 [Electronic resource]. – Mode of access: <http://skatepress.com>.