

The Art Market in Japan

By Noboru Tanio

Recently the media in Japan and other countries have been full of reports about Japanese taking part in art auctions overseas and snapping up Western masterpieces at extravagant prices in what is often described as a rather excessive show of Japan's abundant wealth. The reports have thrown the spotlight on the present situation in Japan's market for works of art.

In the last few years artistic works have joined stocks and real estate as targets for investment as the money game has caught on in Japan, and an increasing number of corporations and individuals that previously had no interest in the field have been purchasing works of art. With even ordinary people showing increased interest in buying relatively inexpensive paintings by contemporary foreign artists, the scope of the Japanese art market certainly appears to be widening.

Yasuda Marine and Fire Insurance Co. blazed the trail into the international art market in March 1987, when it purchased Vincent van Gogh's famous *Sunflowers*, painted in the last year of the artist's life, for a record-breaking \$43.89 million at an auction at Christie's in London. Then in May 1990 Ryoei Saito, honorary chairman of Daishowa Paper Manufacturing Co., smashed the record when he sent a representative to a Sotheby's auction in New York and bought van Gogh's *Portrait of Dr. Gachet* and Renoir's *Au Moulin de la Galette* for \$82.5 million and \$78.1 million, respectively, or a total of \$160.6 million. In between, another Japanese firm purchased Picasso's *Pierrette's Wedding* in 1989 for a then record fee of \$52.71 million.

One of the features of the art market, which makes it more difficult to understand than other investment markets, is that it cannot be deduced from these facts that, for example, the price of works of art has nearly tripled in three years or van Gogh's paintings are without doubt the most expensive in the world. Were the \$43.89 million paid for *Sunflowers*



Vincent van Gogh's *Sunflowers*, for which a leading Japanese insurance firm paid a then-record price of \$43.89 million in 1987.

and the \$82.5 million for *Dr. Gachet* acceptable prices in view of the artistic values of these paintings? These works are masterpieces for sure, but most people who heard the prices expressed astonishment at the financial clout of the Japanese; no one agreed that they were reasonable prices.

Cost and value

The pricing of these works differs completely from that of ordinary goods, the prices of which are decided following the establishment of a market price based on the relationship of supply and demand. Occasionally excessive speculation leads to confusion in the ordinary commodity market and the trading of goods at abnormally high prices, but these prices can be called abnormal precisely because a general standard exists in the market. The general price of land in central Tokyo has

some similarities with the price of works of art, but it results from the relationship of supply and demand for land use in Tokyo, which is the political, economic and information center of Japan.

The relationship of supply and demand and standard prices do exist for works of art, as I will explain below. But basically the standards for establishing the prices of mass-produced goods cannot apply to a work of art, of which there is only one in the whole world. Cost, which is one of the most important factors in deciding the prices of mass-produced goods, has no meaning in the case of a work of art. To put it in an extreme way, however outstanding a work of art may be, it does not have a penny worth of market value unless someone spots its brilliance and desires to possess it.

A century ago van Gogh's paintings had almost no value. Of the 800 works that he produced, only one was sold dur-

Photo: Kyodo News Service

ing his lifetime, and that was purchased by a relative who was only being kind. After van Gogh's death, however, people came to realize the value of his works. Since several collectors appeared who want more than anything else to own a van Gogh, the bidding for his works at auctions went through the roof. Hence the sky-high prices paid for *Sunflowers* and *Dr. Gachet*.

Masuo Ikeda, one of the few contemporary Japanese artists with an international reputation, once compared a ¥10-20 billion jet plane and a van Gogh painting and concluded that the latter had more value. Ikeda's reasoning was that the aircraft was an expendable item that eventually would be scrapped, whereas a work of art would always give people pleasure, however old it became. In the case of music and literature, the value of a work is preserved through concerts and publishing even after the original score or manuscript has been lost. But a painting is limited forever to the one created by the artist, so its scarcity value beats any expensive article of consumption. According to Ikeda, the difficulty of judging a work of art lies in the fact that its social value comes from a mixture of its scarcity value and its artistic value.

Though the art market, as I have explained, is distinguished from the general commodity market, the fixing of prices

and standards in accordance with supply and demand are not entirely missing. Indeed, this is why a market exists and why, as I will explain below, works of art that are targets for investment are treated as financial instruments.

When people want to purchase a painting, they usually want to buy the work of a certain very popular artist. So the demand for the works of that artist outstrip supply, and naturally the price of his works rises. In Japan at present there are an estimated 30,000 painters, of whom about 300, or one-hundredth, have their works traded on the art market. Of these 300, there are about 30 to 50 for whose works demand is heavy and prices are much higher than for the others. Since there are only 30 to 50 artists to bring in profits for the art dealers who mediate between the artists and their fans, many dealers concentrate on a certain painter, thereby pushing prices even higher.

Priced by size

This supply-demand situation exists internationally, too. For example, the works of Andy Warhol, the U.S. pioneer of pop art who died in 1987, carried quite a high price tag in his lifetime, but after his death the shortage of works sent prices spiraling. Many of his works were sold on the international market, with



Portrait of Dr. Gachet by Vincent van Gogh, bought on behalf of businessman Ryoei Saito for a record-shattering \$82.5 million at a New York auction in May.

Photo: Kyodo News Service

Japanese buyers doing their bit to push prices higher.

If there is one artist whose works have many takers and another whose works have few takers, naturally the works of the former will be sold on the market at higher prices. It is in consideration of this market situation that an estimate is given for works that are sold at international auctions. Of course, sometimes the hammer price is higher than the estimate, sometimes lower.

The Japanese market has a unique method of establishing standard prices according to the canvas size. If the standard price for a certain artist is ¥100,000 for a canvas size 1, then a large canvas-size 50 painting by him will be traded for ¥5 million. Canvas size 1 is a little larger than an ordinary postcard. The idea of using canvas sizes as standards originated in France, but France has no method of calculating prices according to this standard. And in the United States, canvas-size standards do not even exist; artists make frames to fit their paintings.

This convenient method of deciding prices according to canvas size is employed only in Japan. But deciding the value of a work of art by its size, regardless of whether it is a good or bad painting, ignores the very essence of art. So the standard does not apply when Japanese purchase Western masterpieces; it only



Renoir's *Au Moulin de la Galette*, for which Ryoei Saito paid \$78.1 million.

Photo: Kyodo News Service

applies to the works of mainly contemporary Japanese artists circulated in Japan.

For the few dozen leading Japanese artists whose works are sold on the market, the price per canvas size unit is between ¥1 million and ¥10 million. New folding screen paintings by such popular top-class artists as Ikuo Hirayama and Kaji Higashiyama command a price of ¥100 million (\$670,000 at the rate of ¥150/\$) or more.

A notable feature of the Japanese market is that almost all of the artists high up on the standard-price ranking are Japanese-style painters; there are few Western-style artists. Another feature is that Japanese artists who are popular and can sell their works at high prices in Japan are almost completely unknown on the international market, and their works do not circulate outside Japan. And vice versa, Japanese artists—mainly abstract Western-style painters—whose works circulate on the international market have no marketability in Japan.

How did this two-tier structure of the Japanese art market come about? The main reason lies in the existence of traditional styles of Japanese painting unique to Japan, which until now have not been introduced to overseas markets at all. Of course, *ukiyo*e prints made an impact overseas early on and whipped up a "japonisme" boom in Western painting, and they are still traded at high prices on art markets around the world. But apart from objects of craftwork, almost no Japanese works of art from the late 19th century to the present have left the shores of Japan. Japanese art dealers have been enthusiastic about importing foreign works to Japan, but they have made almost no effort to introduce and sell Japanese art abroad.

The second reason is that Japanese art dealers traditionally have formed a closed market, trading among colleagues and thereby raising the prices of paintings. They have been able to keep the business going without taking on the risk of selling artists overseas outside the traditional framework. What has made this possible is not the purchasers' love of a work or an artist but their speculative behavior, by which they buy a work recommended by

a dealer in the hope that its price will rise in the future.

In both the Japanese market and the international market, the commodity value and the artistic value of a contemporary work do not necessarily match. The social value of a work of art, which as Ikeda said stems from a mixture of the scarcity value and the artistic value, often changes a great deal with the times. Since the artistic value of a work is determined over a long period of time, sometimes a work that was sold at a high price in the past loses its value, and sometimes the work of an artist that did not sell commands a high price after his death.

In the closed market for Japanese-style paintings, however, it is common for the price of works of a painter with a good reputation during his lifetime to plummet immediately after his death. This sounds puzzling, since it is the opposite of what happened in the case of Andy Warhol. The cause of the phenomenon is that to maintain close relations with an artist, the art dealer sells his works at prices higher than the true value during his lifetime, but this behind-the-scenes maneuvering becomes unnecessary after his death.

Latest boom

In the last two decades the Japanese art market has gone through two booms that have instilled some fresh air. The first boom occurred in the early 1970s in the midst of the long period of economic expansion that ended with the first oil crisis. The second boom is the present one, which is taking place against the background of the ongoing economic expansion and the abundance of money. The leeway generated by Japan's economic development has stimulated interest in art among the Japanese, who flock to exhibitions sponsored by not only art galleries but also media companies and department stores. In addition, many public and municipal art galleries have opened throughout Japan.

In the Japanese art market transactions between art dealers and the investors who patronize them are not often made public, so there is little information available for gauging the market's size. The art

critic Shin'ichi Segi estimates, however, that annual turnover reaches about ¥700 billion (\$4.66 billion), which is about 10% of the estimated world total of ¥7.5 trillion.

The value of works of art imported into Japan in 1989 reached ¥350 billion (\$2.3 billion), up 60% from the year before. With the purchases at record-breaking prices of van Gogh and Renoir masterpieces and the large-scale buying of works by contemporary foreign artists, mainly French, at several hundred thousand yen apiece, the figure for 1990 is expected to be even higher. With the value of foreign trading exceeding that of domestic trading, one wonders how this will influence the traditionally closed art market in Japan. Moreover, it can be cited that Japan's art exports are negligible, and Japan has an overwhelming import surplus in arts.

Attention should be paid to the fact that the present boom has been brought about by the purchase of works of art as investments. As the high prices of stocks and real estate have leveled off, the targets for investment have diversified to include art works. This phenomenon is not limited to Japan. In Britain the British Rail Pension Fund made an enormous profit by selling off works of art that it had collected over a decade or so.

Since the prices of works of art are on the rise worldwide, corporations and individuals who previously had no connection with the art market are making purchases in the expectation of further price increases. In this sense, works of art are not so much objects to be admired as financial instruments. In the first boom in the 1970s, a lot of people bought not so valuable paintings at high prices only to suffer losses as prices fell in the subsequent slump. The prices of some works are bound to fall when the present boom ends. One wonders how many people at that time will keep calm and maintain their faith in the true value of art. ■

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