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Arts and conspicuous consumption

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Abstract

Recent years have witnessed luxury boom. Sales of Lamborghini increased more than seven times from 2001 to 2013, and the price of luxury wine increased 5 times from 1996 to 2008. There are, however, only moderate increases in Global Art Price in this luxury fever. The purpose of this study is to give one possible answer to the question why the demand for art is not soaring while other luxury markets are so much active. We present social survey results, conducted in Japan and Korea, which provide evidence on positional concerns associated with art consumption. We will show that positional concern or conspicuous motive in art consumption is weak, and suggest this could be an answer to the above question why demand for art is not soaring.

Introduction

We have experienced luxury boom. Sales of high-ended wristwatches increased 13% in 1997, sales of luxury cars whose price is above \$30,000 increased their market share by 5% from 1986 to 1996 in the USA market

(Frank, 1999). R. Frank noted that, "Suites costing from \$750 to \$1800 a night at The Four Seasons Resorts in Palm Beach are booked months ahead, as are \$5000-a-night suites at Little Nell in Aspen. All 84 seats on Tavoca World Tour's \$38000-per-person 1996 world tour sold out six months in advance". (R. Frank, 1999, p 17). This luxury boom has continued in this 21th century. For example, annual sales of BMW increased more than two times from 2001 to 2013, and the sales of Lamborghini increased more than seven times during the same period. The sales of Patek Philippe increased 22% in a single year of 2013.¹ Global Luxury Index published by Standard & Poor's increased 227% from 2009 to 2014.

We can confirm luxury fever in almost every luxury market around the world. The demand for art, however, is an exception. The Global Art Price Index shows that Art Price increased by about 100% from 1996 to 2008, while the price of luxury wine increased 500% for the same period. The demand for art is not soaring in spite of the luxury boom after 1990. And so, there naturally rises a question: why? The purpose of this short paper is to provide a possible answer to this question.

We will present a social survey result, conducted in Japan and Korea, which will reveal that conspicuous motive in art consumption is not strong. Solnick and Hemenway (2005) found that, in general, private goods are more positional than public goods as Galbraith has suggested 50 years ago and positional concerns associated with public goods are weak in many cases.² Art is a merit good whose external benefits are large, and thus, this finding casts some doubt on a traditional belief that art consumption is conspicuous and positional (see, notably, B. Mandel, 2009). This doubt will become stronger considering the above mentioned fact that the demand for art was not increasing sharply in the whirlpool of demand explosion of luxury goods in recent years. To prove the plausibility of our guess that art consumption is not

positional or conspicuous, we conducted a social survey whose results seem to support the above guess. Thus, this note will argue that art is not a conspicuous good as generally believed, and this is simply the reason why the demands for art is not soaring in the luxury fever of recent years.

We will explain our view in following steps: Section II will show the changes in demands for luxury goods and art, and comparisons between the two will be made. Section III introduces our social survey and discusses the survey results. Concluding remarks is given in the final section.

Luxury boom and demand for art

Widening income disparity has yielded worldwide luxury boom. Many authors from several different fields of major argue that, increasing number of the rich, of the highly educated, of the elderly, the spread of winner-take-all markets, and great awareness of other cultures' ideas of the good life are sources of the soaring demands in luxury market (see, for example, Frank and Cook 1995, Frank 1999, Heath 1997, Silverstein and Fiske 2003). In 2012-2014, the market for Swiss brand watch expanded at the rate of 23.3%, while world watch market grew at the rate of 4.5%. In 1997, the market for luxury car in the USA grew by 6.5%, while the total number of cars sold decreased by 3%. Table 1 shows the numbers of German luxury cars sold and their growth rates from 2001 to 2013. Readers could confirm from Table 1 that even the Lehman shock had a limited effect on the soaring demands for luxury cars.

Figure 1 shows changes in auction price in luxury wine (whose price is over \$400) and global art price index from 1996 to 2008.³ We can confirm from the Figure that, ignoring the period of financial crisis 2005-2007, price index of luxury wine is always quite higher than global art price index. Thus, Figure 1

Table 1

	Audi		Lamborghini		BMW	
	Sales	Rate of increase	Sales	Rate of increase	Sales	Rate of increase
2001	726, 134	100	297	100	905, 657	100
2002	742, 128	102	424	143	1, 057, 344	117
2003	769, 893	106	1, 305	439	1, 104, 916	122
2004	779, 441	107	1, 592	536	1, 208, 732	133
2005	829, 109	114	1, 600	539	1, 327, 992	147
2006	905, 188	125	2, 087	703	1, 373, 970	152
2007	964, 151	133	2, 406	810	1, 500, 678	166
2008	1, 003, 469	138	2, 430	818	1, 435, 876	159
2009	949, 729	131	1, 515	510	1, 286, 310	142
2010	1, 092, 411	150	1, 302	438	1, 461, 166	161
2011	1, 302, 659	179	1, 602	539	1, 668, 982	184
2012	1, 455, 123	200	2, 083	701	1, 845, 186	204
2013	1, 575, 480	217	2, 121	714	1, 963, 798	217

Data Sources: see footnotes. 1

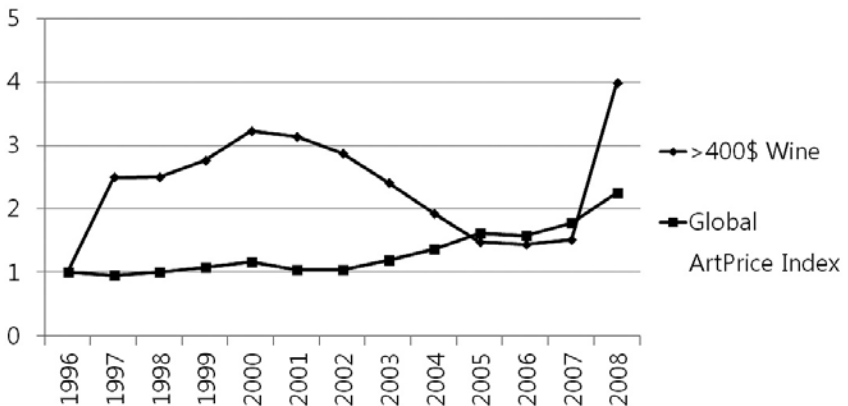


Figure 1.

Data Sources : see footnotes. 3

suggests two things: one, there has been luxury wine boom, and two, at least from 1996 to 2004, the period when luxury boom is well-observed, global art price index increased only slightly. Luxury boom is a long-run phenomenon which has continued till now for the quarter of century, but a long term explosion in art price has never been observed after 1990. Rates of return studies for art investment covering recent data also report the rate of return was not increasing. For example, Worthington and Higgs (2006) estimated the real rate of return for art investment in Australia as 1.4% (see also Frey and Pommerhne, 1989, Pesando, 1993, Pesando and Shum, 1996). It would be safe to argue that art is a luxury good for the general public. Then, why the demand for art is not soaring in this luxury boom? This is an open question we want to provide in this study, and we want to explain our view on this question.

Solnick and Hemenway (2005) investigate validity of the hypothesis, “private goods are more positional than public goods”, whose idea is originally suggested by Galbraith (1958). They found that, among other important issues, positional concerns for public goods such as “playgrounds in neighborhood”, “basic health research spending”, and “national life expectancy” are weak (see Solnick and Hemenway for detail). Art is generally regarded as a public good or merit good by many scholars and the public (see, for example, Thronsbey and Wither 1983). Thus, Solnick-Hemenway’s study suggests that positional concerns or conspicuous motivation in art consumption or investment could be weak. And, if this is true, this would be an explanation why the demand for art is not soaring in the luxury boom. We will introduce survey results supporting this view in the next section.

Survey Results

To confirm our view that conspicuous motive for art consumption is not strong, we conducted a survey in Japan and Korea in the summer of 2014.

The survey is composed of two parts. The first part of survey shown in Table 3 asks whether respondents regard art as a public good or not, and the second part of survey shown in Table 4 is constructed to investigate whether conspicuous motive in art consumption is strong or not. Questions in Table 3 are originally constructed in the well-known survey by Throsby and Wither (1983) and questions in Table 4 are organized referring to the studies by Bringberg and Plimpton (1986), Richins and Dawson (1992) and Vigneron and Johnson (1999).⁴ Internal consistency of the questions is checked by Cronbach's alpha coefficient whose values are $\alpha=0.668$ for Table 3 and $\alpha=0.809$ for Table 4.

Surveys were administered in the streets of Busan in Korea and Fukuoka in Japan. We distributed questionnaires to 300 randomly chosen people and we received 228 responses. Table 2 summarizes the sample structure- citizenship, sex and income level of respondents.⁵ There were no statistically meaningful differences in responses between Japan and Korea, and between male and female respondents.

Table 2 Sample Structure

		Number of respondents	Percentage
Citizenship	Japan	76	33.3
	Korea	152	66.7
Sex	Male	120	52.9
	Female	107	47.1
Annual incomes	Less than 40,000 US\$	163	82.7
	More than 40,000 US\$	34	17.3

Table 3 shows how respondents evaluate the external benefits or positive externality of the arts. Compared to Throsby-Wither's Australian survey,

respondents show stronger support for government's subsidy for public art institutions. For the question, "all public art institutions should be made to survive on tickets sales alone", only 5.3% of respondents agree or strongly agree (corresponding number was 20.7% in Throsby-Witter, numbers in parenthesis in below will mean the results found by Throsby and Witter). The first and third questions in Table 3 directly ask about the external effects of the arts, and readers could find in Table 3 that 77.2% and 62.4% of respondents admit the external benefit of the arts (corresponding numbers were

Table 3

	Percentage		
	Agree or strongly agree	Disagree or strongly disagree	No opinion or don't know
The success of Japanese (Korean) artists give people a sense of pride in Japanese (Korean) achievement.	77.2	4.4	18.4
The arts help us to understand our own country better.	74.6	4.4	21.1
The arts only benefit those people who attend public performance stages or exhibition halls.	19.9	62.4	17.7
The arts are important in making us look at our way of life.	49.8	8.4	41.9
The arts should not be allowed to die out.	91.2	3.1	5.7
It is important for school children to learn fine arts as part of their education.	82.0	4.8	13.2
The arts often harm our society by being too critical.	5.7	74.1	20.2
All public art institutions should be made to survive on their ticket sales alone.	5.3	80.3	14.5

94.8% and 64.1%). As for the necessity of learning fine arts (sixth question), 82.0% of respondents reply it is important to learn fine arts (96.5% in Australian survey). In all, survey results in Table 3 show respondents acknowledge positive external benefits of the arts and support government spending over public art institutions and fine arts education, which are basically the same results with Throsby-Witter. As far as we know, this survey is the first Throsby-Witter type survey conducted in East Asia, and thus, is meaningful

Table 4

	Percentage		
	Agree or strongly agree	Disagree or strongly disagree	No opinion or don't know
Among the arts by the same artist, the higher the market price of the work is, the better is the quality of art.	6.6	75.0	18.4
It is important to consume and enjoy high level art, because people of higher social positions enjoy art of higher quality.	16.2	48.7	35.1
I am inclined to consume and enjoy art to earn esteem of people around me.	30.7	40.4	28.9
I consume and enjoy well-recognized and famous fine arts.	17.2	48.5	34.4
I am inclined to speak boastfully of my recent experience of enjoying fine arts to people around me.	11.8	61.8	26.3
I will not buy unpopular and unfamiliar art even if it is new and original.	9.7	63.2	27.2
I feel superior to my neighbor, when my knowledge of art is better and wealthier than his/her.	18.6	52.7	28.8
Sometimes, I buy fine arts to attract other people's attention in important meetings and events.	12.3	65.8	21.9

to find that results obtained in Throsby-Witter's Australian survey remain valid in Japan and Korea.

Table 4 shows whether respondents regard art as a subject of conspicuous consumption or not. In Table 4, we can read that majority of the respondents do not think the price of art is a signal of art quality (the first question), only 30.7% agree art consumption is a way to earn esteem of people around (the third question), and 65.8% of respondents said they would not buy art for the purpose of attracting other people's attention (the eighth question). A great wealth of knowledge of art does not present a sense of superiority to 52.7% of respondents (the seventh question). As a whole, survey results in Table 4 seem to support our view that conspicuous motive in art consumption is not strong and it is questionable to regard art as a conspicuous good. Art may not be a subject of conspicuous consumption and this may be a reason why the demand for art is not soaring in this recent luxury boom.

Concluding Remarks

Art is a merit good and positive external benefits from art accumulation are large. A recent study by Solnick and Hemenway provided evidence concerning the hypothesis that consumption goods are more positional than public goods. Combined with an observation of relatively inactive market demand for art, we have a guess positional concern associated with art consumption would not be strong. Social survey introduced in this note seem to give some supports to this guess, that is, conspicuous motive for art consumption is not strong and this could be a reason why the demand for art is not increasing sharply in the recent luxury fever.

Luxury boom in recent years sometimes results in overinvestment in positional goods such as luxury cars and expensive wristwatches (Frank,

1999). On the contrary, underinvestment in art possibly prevails if positional concern in art consumption is weak and if external benefits in art investment are large enough. Thus, government supports for public art institutions and fine arts education could be justified by further researches on this theme.

Footnotes.

1. Data sources are Audi group annual report (2005, 2011, 2013), BMW annual report (2008, 2013), and World Watch Report (2012, 2013, 2014).
2. We could define that a good for conspicuous consumption is a good that is supposed to reveal higher social positions. As there are positional goods associated with lower social positions, positional good is, strictly speaking, different from a good yielding utility from conspicuous consumption. In this study, however, we will use the term, positional good and (a good for) conspicuous consumption interchangeably. The wording, conspicuous motive and positional concern are also used in the same sense.
3. Data sources are Masset and Weisskopf (2010), and Wine Spectator Auction Index.
4. These studies investigate how wording for consumers' brand recognition surveys could be made.
5. Table 2 shows that the sample used in this survey is biased in the way that the average income of the sample is lower than the average of population. We think this bias is caused by lower return rate of questionnaire by elderly. Though we did not ask the age and occupation of respondents, we have a guess that there was a difference in return rate of questionnaire between the young and elderly generation. Though there are some limitations in the survey sample, we want to emphasize that, as far as we know, this is the first survey to prove that the positional concern in art consumption is far from strong, and thus the survey results are worth reading and reviewing further.

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