

Who will follow baby boomers into the art market?

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The importance of changing demographics

Many factors will shape the art market in the future, from changing fashion, taste, disposable income, taxation and philanthropy to online auctioneering and authentication technology. But of all the forces that will affect the market, demographic change is probably the most important. Demographics should, therefore, underpin every business plan and marketing strategy in the art world and in commerce.

Two main features of demography stand out today: the extent to which most industrial countries are ageing and whether developing countries will fill those gaps.

The main way in which demographics affect an economy is the ratio of dependents to people of working age. This dependency ratio refers to people under 16 and over 64, considered to be of non-working age. The number of over 60s as a percentage of the total of population will continue rising in the developed and developing world, as it has been since the 1950s, with the period of greatest acceleration post-2010. Fertility rates have meanwhile been falling in the west and Japan for the past 60 years.

These two trends combined mean that the dependency ratio of the retired to the working-age population will continue to grow until 2050. In Japan, it has risen from 44% in 1990 to 56% in 2010 and it looks set to rise to 69% by 2030. In the US, however, the dependency ratio fell from 67% in 1960 to around 50% in 1980 and has been stable since. The ratio is expected to change this year, reaching 63% by 2030.

Such is the importance of demographics in the US that all the major generations have been given names since 1871. The most famous are the “baby boomers”, referring to the generation born between 1946 and 1964, many of whom have now reached retirement age.

It was the generation before them, the so-called “lucky few” born between 1929 and 1945, who have ridden the demographic and economic wave created by the number of “baby boomers”, and who were able to retire early. Their outlook and taste was influenced by their parents, a generation marked by the fact that they were increasingly native-born rather than immigrants.

Two generations preceded the “lucky few”: the “good warriors” (1909 to 1928) who went on to fight in the second world war, and their parents, the “hard timers” (1890 to 1908). The latter were born during America’s “gilded age”, but were so called because they lived through the first world war and the Great Depression. Their parents, born between 1871 and 1889, were typically immigrants, many from Ireland and Germany, who found work first in agriculture and then industry, and are called “the new worlders”. Per capita income doubled between 1860 and 1914 as the US became the world’s foremost industrial power.

Many of these developments have been mirrored in the art market. The “new worlder” generation were prolific art buyers. Between 1885 and 1914 Americans bought 14 of the 20 highest priced works of art. Many of their names, and their purchases, now adorn the great US museums they supported. These purchases were made despite high import taxes. (In 1909 works of art over 100 years old were exempted from duty.) Their offspring, the “hard timers”, were the first generation to embrace modern art in the late 1920s. However, crucially their limited numbers did little to boost the art market. That was left to their more numerous offspring, the “good warriors” in the 1950s. The post-war decades



Art dealer Leo Castelli (bottom left) and collectors, Sotheby Parke-Bernet auction, New York, 1965. Changing US demographics benefited this generation

were when impressionist and modern art first made outstanding prices at auction. The “good warriors” were also responsible for creating new forms of American art in the post-war period until its peak in the 1960s. These same works are the most highly prized by today’s “baby boomers”.

It was the “lucky few” generation, born between 1929 and 1945, that propelled art inflation during the 1970s and 1980s. In the early 1990s this was followed by the first of the boomers, by now in their mid 40s, or at the mature art buying age. (Art is generally collected by people between their 40s to 60s.)

From the middle of the 1990s one of the longest art booms in history began, which persists today despite the downturns at the turn of the century and from 2008 to 2009.

For the other driving force of the 20th-century art market, Japan, it is a very different story, one possibly instructive as to what the future might

“From 2013 China will have a declining working population... but India’s will grow for 30 years”

hold. Japan has the world’s most ageing population in the developed world. This is not an encouraging economic sign as it continues to wrestle with a near-20-year recession and the world’s highest government debts. But that was far from the case in the recent past.

From 1947 to 1957 the average number of children born to women over their lifetime declined by 50% to 2.04 children per woman. This fall led to a rapid accumulation of capital with GDP per capita rising until it was second only to the US, in 1968. Following the 1973 oil crisis, Japan’s fertility rate fell again, reaching a low of 1.26 children per woman in 2005. By

2044 the elderly population in Japan will be equal to that of the working population, and the country’s population will be the world’s oldest on average for the next 20 years.

Japan’s presence in the art market perfectly reflects its changing demographics. During the 1960s Japanese collectors were for the first time able to have a powerful influence on the European art market alongside western buyers. For example, post 17th-century Japanese Netsuke typically rose from £200 in 1960 (about \$11,900 today) to between £1,900 and £2,800 in 1969 (\$66,000 to \$98,000 today). Some Japanese 17th- and 18th-century porcelain also rose dramatically in value.

Japanese interest in collecting western art, especially impressionist paintings, began after the 1973 inflationary oil crisis, aided by tax breaks for art exhibition sponsorship and a dramatic strengthening of the yen. By 1990 one gallery in Tokyo was estimated to account for 30% of the impressionist market. However, that was the year the Japanese bubble burst and the decline of Japanese art buying since then is well documented along with their lost decades of economic growth.

China’s demographic profile is very unusual. China has grown old before its time owing to the one-child policy implemented in the late 1970s (but voluntarily adopted in 1955). The fall in the youth dependency ratio has worked in China’s favour over the past few decades but from 2013 China will have a declining working-age population. In other words, the young workers who helped fuel its economic growth will grow old, thereby reshaping the Chinese economy and society. By 2050 China’s dependency ratio will be 80%, of which 70% of them will be elderly, exceeding even Japan’s.

In contrast, India’s working age population is expected to continue growing for at least another 30 years even though its dependency ratio will rise. It is predicted that India will outpace China

over the next decade. Demographics are also promising in Latin America where the dependency ratio will continue to fall until 2023.

It is important, however, to sound a note of caution because demographics alone do not ensure healthy economic growth. Without the right institutions providing rule of law, effective bureaucracy, flexible labour markets, etc, these added workers will not be put to good use. Moreover, if job creation fails to keep pace with labour force growth, social instability will ensue.

Overall, the art market should grow considerably in size as more countries reach a stage in development that allow enough people to buy and collect art. New York and, less so, London will maintain their pre-eminent position because of the US and the UK’s more stable demographics, their open economies, legal systems, low taxation and international cultures, but they will have more rivals.

The artists in the developed world will be older and their number shrinking, possibly made up of the retired lucky few and the older, wealthier “baby boomers”. Their art may become more spiritual or religious as well as nostalgic, pastoral and experimental. In the developing world the number of artists should grow with the population.

In those countries where there has been greatest social upheaval, such as the Arab world, the art may be more edgy, provocative and collectable.

Assuming an average age of death of 80 years those that bought in the 1970s to 1990s will be placing their art increasingly onto the market in return for cash. Expect to see more decorative arts coming on to the market—silver and porcelain and collectibles such as stamps bought in the 1970s and a growing sale of post-war and contemporary art including photography.

The writer lectures on the art market at Christie’s Education in the UK and at various European universities and business schools