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How NFTs Are Changing the Art World

DIGITAL ART HAS become a billion-dollar business overnight. Everyone from Paris Hilton to Damien Hirst is suddenly creating non-fungible tokens. But are NFTs just a get-rich-quick game masquerading as art, or is there more to it?

Art Basel Switzerland, the mother ship of all art fairs, just ended. As always, there were numerous parties and exhibitions. But this year saw new emergences: blockchain conferences, NFT pop-ups and crypto-happenings. It seems digital art has taken over. That's surprising, because it hadn't played much of a role in the art market, with modern and contemporary paintings overshadowing all else. There are 1,500 galleries in New York, and I knew of only one that focused exclusively on digital art.

But then came the crypto hype and Mike Winkelmann, known as Beeple. In March 2021 a JPEG file of his fetched a record $69.3 million at an auction at Christie's. Suddenly Beeple, who sold his works for a few thousand dollars in 2020, joined the champions league of living artists, up there with Jeff Koons (whose work has gone for $91 million) and David Hockney ($90 million). And then Beeple was eclipsed by another digital creator, Pak, whose *Merge* sold for almost $92 million in December.

An NFT is a digital certificate of authenticity (similar to a vehicle registration for a car). An NFT's unique signature makes it easy to verify ownership and transfer art between owners. They are traded online, and often purchased using cryptocurrency.

The market for NFTs is approximately the size of the entire online art trade. Buyers are usually collectors completely unknown to the traditional art market who have one driving motivation: investment. And they are trading heavily. The average duration between purchase and resale of an NFT is just 33 days. Compare this to the average holding period of 25 to 30 years in the traditional art market.

Of course, some NFTs are a good investment. However, most will never show any return. Why? Two reasons.

First, for long-term success in the traditional art market, an artist must be part of a network of galleries and museums, as was shown in my study of the careers of 500,000 artists that appeared in *Science* magazine. This network consists of a handful of New York galleries and museums, such as the Guggenheim, MoMA and The Met. None of these top institutions shows NFT artists.

Second, the NFT market is a bubble, inflated, not permanent. Excess crypto money is still flushing into the market. This was evident when Hirst released 10,000 NFTs in July 2021. The top price was $130,000. Today, they are trading at roughly $11,000. That's about five times the market price of a comparable physical edition. You don't have to be an economics professor to know that this is overpriced and will eventually further decrease.

So are NFTs irrelevant? Definitely not. The bubble shows what the traditional art market has missed: transparency and participation. NFTs are so actively traded because all prices and transactions are public, and this transparency attracts new client groups. The buyer can see exactly what the seller has paid.

NFTs also make for a fairer market, because artists participate in price increases. Every time an NFT is traded, the artist earns with it. This is done automatically via smart contracts. It sounds like an illusion, but it's already happening. The exorbitant prices for pointless JPEG files created quickly by anonymous artist groups and pumped up by Instagram and Twitter whispers will eventually end. However, NFTs will remain. They create transparency, facilitate participation and allow first-time buyers to purchase an artist's work as an NFT, an inexpensive alternative to the original. You don't even need to buy a frame. You can display the piece on your TV screen.

Magnus Resch is a professor of art economics at Yale University. His newest book is titled How to Create and Sell NFTs.