NFTs: Is there more in it than greed?

In a period, in which physical encounters with art works were reduced to nearly none, it has come as no surprise that it is a digital technology which captures both dreams and nightmares for anybody engaged in the art world. Following the already now subdued hype around blockchain technologies and cryptocurrencies, now NFTs or “non-fungible tokens” make headlines: not only the art press, auction houses and now also galleries, but also the global offer of digital talks and conversations seem to find no other topic than NFTs. And the waves are spreading, with mainstream papers, economists and financial analyist being interested in the financial speculation around ‘cryptoart’ as a potential asset class. There seems to be no escape from what has been lauded recently as the art world’s Napster by Christie’s Expert Noah Davies (https://www.coindesk.com/nfts-are-the-art-worlds-napster-says-exec-at-christies-auction-house).

The art world likes its hypes and not everything that shines will turn out to be gold. But as hypes go, it is so widespread that a closer look at what this new buzzword means and how individual art lovers might be able to engage with it – or decide to stay well away – seems relevant now.

What are NFTs, and how do they relate to art?

NFTs have nothing to do with art per se. NFTs are unique, that is non-fungible, digital data records kept on a distributed ledger (a blockchain) that are capable of being traded – hence the idea of a token – and which then represent the ownership of a digital asset. While making a splash in the art world, the most recent development seems to be the ownership of people's Tweets. Important is that the sales transaction remains in the digital space and is more often than not related to digital art (or other digital collectables) which are being paid for by cryptocurrencies (Ethereum) only. Successful digital art platform worth visiting are Nifty Gateway MakersPlace, SuperRare and Verisart.

What does this mean for the potential consumer?

To discuss the potential impact of NFTs on the art market would take too long to discuss here and remains highly speculative at this point in time. What becomes more relevant is to understand how the buzz around NFTs might impact the end consumer or art lover on an individual basis. NFTs have really arrived in the art market big time with Christie's spectacular sale of Beeple's digital collage of 5000 images "Everydays" for 68 Million US Dollars earlier this year. This auction record meant that while people still might not understand NFTs, they feel more inclined to trust them, as they are endorsed by trusted brands in the art market. Ever since have auction houses tried to follow in Christie's footsteps with both Sotheby's and Phillips announcing NFT minted artworks for sale and also blue chip galleries stage exhibitions which feature some element of an NFT “drop” in which an art work appears in the digital sphere, such as recently with Petzel Gallery in New York (Simon Denny) or Pace Gallery (John Gerrard).

For potential collectors, NFTs can be attractive as they inscribe value especially to digital art works, which might be interesting for anyone not interested in hanging a painting over their sofa for example. They speak to tech-savvy consumers who are not interested in the traditional object focused art market. The technology is interesting for artists as it allows them to monetise something that was hard to ascribe value to previously, and smart contract technology means they receive loyalties should work be resold. If it really makes sense to possess digital ownership of something ideally unlimited digitally is a very different question, as is the one, if digital artworks will actually keep their value over time. If the notion of artificial scarcity will establish itself will remain to be seen. Not to mention that the quality of a lot of the work for sale needs to be carefully considered and the question of what good art is currently being stretched in the digital sphere. It is not surprising that many works are created by designers and the visual language is compelling but can be void of content.

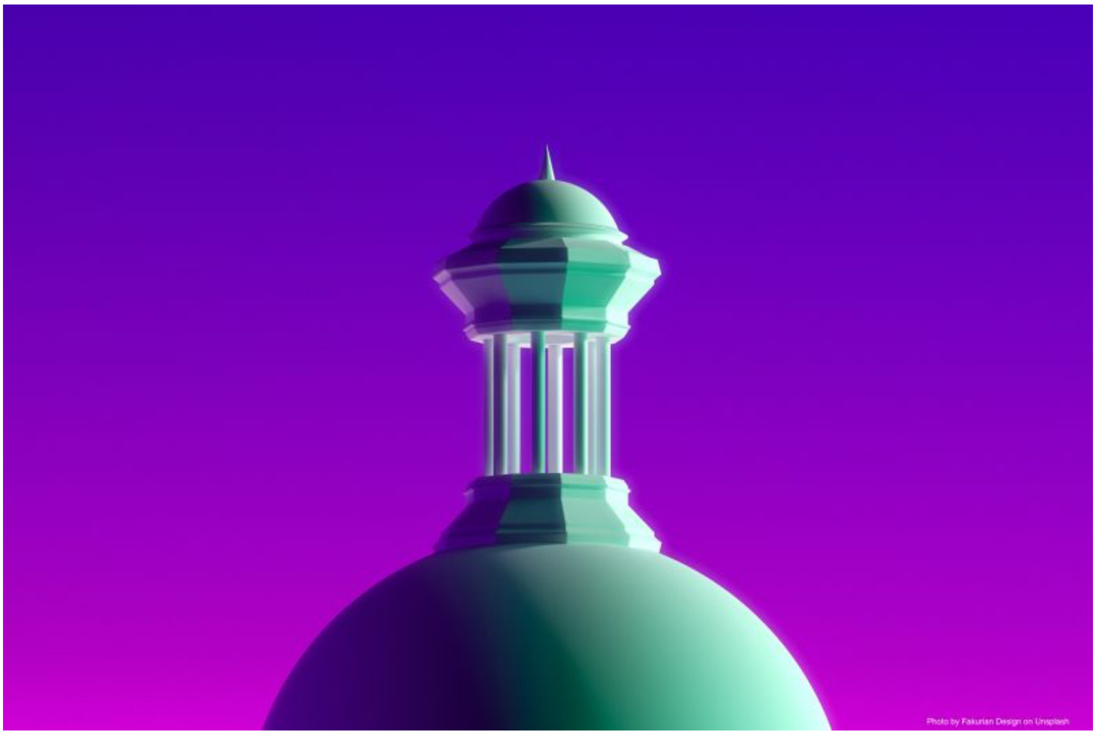
But there are more drawbacks than just the question of quality control and art world validation. Minting NFTs, that is inscribing them on the block chain, draws immense amounts of energy. Artist and climate activist Joanie Lemercier became very aware of this when he conducted his first NFT drop in form of six videos. Having sold out within 10 seconds, he calculated that the transaction costs were 8.7 megawatt-hours; equivalent to two years of energy consumption in his studio. He subsequently cancelled further drops despite the potential to make quite a lot of money really quickly. The dominant blockchain currency Ethereum uses as much electricity a year as the country of Nigeria (https://digiconomist.net/ethereum-energy-consumption) due to the immense computer transactions (mining) needed to keep the information on the blockchain secure. There is a growing trend of artists raising alarm bells around the ecological impact of NFT transactions such as John Gerrard or Simon Denny.

Another real issue especially for the collector is the question about copyrights. Ownership does not equal ownership of rights, as became clear when the platform Opensea wanted to sell an NFT of a drawing by Jean-Michel Basquiat at the end of April, which claimed to include the copyright to the image and even the right to destroy the drawing itself after purchase. As the Estate of the late artists owns the copyright of all works, this was not possible, and the drawing was withdrawn from auction. We can expect more issues around legal facets especially as laws are not as robust yet in the digital sphere as in the dealings with physical art.

The landscape here is complex. Two contrary hopes focus on the new technology. On one hand the hope for greater equity in the art market, a greater acceptance for digital art for example, smart contracts that might enable artists to claim loyalties made from their sale and other ethically sound desires, that would enhance trust in the market for both producer and consumer alike. On the other hand, we see speculators aiming to make a quick gain by hyping up the general societal interest in the topic and especially new buying audiences that NFTs can reach, which were resistant to the art market before. It comes as no surprise that the purchaser of the Beeple NFT, Vignesh Sundaresan, also known as MetaKovan, is himself a Cryptoinvestor.

In a time when museums, art fairs and galleries slowly begin to re-open, it will remain to be seen if the talk of NFTs will become last year's fancy, overridden by our desire to buy, look and confront physical works, or if its legacy and integration into the financial aspects of the art market may grant it a firm place in a globalised marketplace. Speculation is in any case ripe, and we have seen in the past what happens when art market bubbles burst. The tech magazine Wired called the NFT craze recently the 21st Century Tulip Fever. And financial expert James Bowden called NFTs "speculative bubbles brought about by stimulus cheques in the US, lockdown boredom and low interest rates." (https://theconversation.com/nfts-are-much-bigger-than-an-art-fad-heres-how-they-could-change-the-world-159563) So before you invest, wait at least until lockdown is over.

Written by our ARTE Generali author Stephanie Dieckvoss, London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