

slide. The main worries surround the country's nagging fiscal problems. Although it avoided the worst effects of the regional downturn, it has failed to get its budget under control. Its neighbours have increased their borrowing even more sharply. But investors expect them to resume robust economic growth in a couple of years. Two years from now, the Philippines will still be the Philippines, a perpetual under-achiever.

In South Korea, the won has slid more because of the stockmarket than because of doubts about reforms. Earlier this year, shares soared. Now, although South Korea's recovery still looks strong, investors have begun to pull out of the market, weakening the won. This week, Moody's, a credit-rating agency, upgraded several South Korean banks, helping to drive the won back up a bit.

Overall, sliding currencies should increase already strong current-account surpluses across the region. That should help Thailand and the Philippines to compete with Malaysia, which, in September 1998, pegged its currency at an artificially low level and is running one of the biggest surpluses in the region. South Korea, which has a more developed economy, will gain even more than its neighbours from its currency's fall against the rising yen.

Recent currency uncertainty may have sent a few investors into a panic. But the risk of wholesale capital flight from the region seems low. And in sharp contrast to 1997, those who do pull out early may not turn out to be the lucky ones.

The art market

The colour of money

“ART”, a comedy now running in theatres in London's West End and elsewhere, begins after a middle-class doctor buys an all-white modern painting for FF200,000 (\$33,000). The plain canvas and its price provoke his two friends into, by turns, scorn, indifference and bemusement. Arguments become heated, and the three eventually come to blows. Pity none of them is an economist. One might have pointed out that beauty may be in the eye of the beholder, but its price is set by the market.

As an investment, fine art has always been different from many other assets, and lacks liquid exchanges. The market is dispersed among dealers and auction houses. Art is expensive to trade, with auctioneers charging 10% of the “hammer price”. Financing a purchase is hard: auction houses



operate a cash-and-carry system.

But changes may be in store for the stodgy trade in fine arts. David Kusin, founder of Kusin & Company, an American consultancy devoted to the economics of art, estimates the value of the global art and antiquities business this year at \$17 billion. But, he says, this huge industry lacks a “financial infrastructure”—a gap he hopes to fill using the methods of modern finance.

To start with, he is creating art-price indices so that art can be compared with other investment-grade assets. Previously such measures suffered from two weaknesses. They left out works put up for auction that failed to fetch their reserve price—the auctioneer's lowest acceptable bid for the work. Ignoring these so-called “buy-ins” can give a skewed picture of prices. Also data from private sales were often excluded. Mr. Kusin plans to include both types of transactions in his indices for 100 categories of fine art.

Recently Mr Kusin used his data to estimate the investment performance of American School paintings in 1988-98. The initial results are telling. One is that art prices are not highly correlated with stockmarkets. So investment in art might have a role to play in reducing risk in large portfolios. Another finding is that some art can be a terrible investment, at least in the short term. His study of American School artists shows that, in every year since 1990, these paintings did worse than the S&P 500 index of share prices. Indeed, in many years the average return on in-

vestment in these paintings did not even keep pace with inflation.

Of course, every artwork is, by definition, unique. So, in contrast to the S&P 500 index, which is simply a weighted average of share prices, art-price indices will still need a human touch. Influential critics can make or break demand for an entire genre. Appraisers' estimates of fair value will be taken into account, so that prices that connoisseurs regard as absurd will be given little weight.

The possibilities for the future are intriguing. For example, will auction houses soon be able to hedge their profits by buying options that pay off when the art market is in recession? Will Chicago pit-traders one day speculate on Picasso futures alongside pork bellies? Are hedge funds about to invest in art as well as securities and property?

Probably not is the answer to all three questions. But a more informed and efficient market for fine art should benefit most participants: collectors, middlemen, museums and even artists themselves. And, at the very least, better price information should remind collectors that they have a lot of idle capital hanging on their walls. That is something banks and institutional investors would also do well to keep in perspective.



Putting an idle Picasso to work