Morons ?

Disrupting the Art World Using NFT Application

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An artwork titled “Morons” was created by British artist Banksy (born in 1974) in 2006. The black and white illustration depicts an auction at Christie’s Auction House, and aims to ridicule and denigrate the mechanisms of the international art market. Featured in the work is a framed text which reads mockingly: “I can’t believe you morons actually buy this shit”. This proclamation refers to the skyrocketing prices of artworks in recent decades. According to the 2020 art market report, published by Art Basel and UBS Bank, the total financial activity in this market is valued at $50 billion, with the top three percent of artists holding 41% of the revenue. This figure is similar to the data on the distribution of global wealth: 44% of the wealth is held by one percent of the world's adult population. Due to the pandemic and its effects, and the fact that $64 trillion in capital is currently in the process of inter-generational transition from Baby Boomers to Generation X and Millennials (Deloitte Art Tactic Report 2019), the question must be

asked: are economic and social patterns of behavior likely to change, and if so, how will this affect the art world?

The artwork mentioned above was purchased in March this year by a technology company involved in blockchain for the sum of $95,000. After it was purchased, the artwork was set on fire in a broadcast and publicized event, with the objective of turning the video into an NFT. After the NFT was embedded in the blockchain network, the artwork's token was sold for a sum of $380,000.

A lot has been talked and written in recent months about NFT in media outlets around the world with technology, finance, art and everything in between. NFT is a technology that allows the minting (as with coins) of a certificate of ownership on the blockchain network, so that anyone who acquires a digital artwork (illustration, video, design, clip, painting, etc.) can prove he is the owner of the work, while the work itself is available online for all, for viewing, downloading or for printing (the buyer of the NFT did not thereby also acquire the right to reproduce the original work, unless there is an express written agreement between the artist and the buyer).

NFTs are blockchain-based records signifying the ownership of digital or physical assets. Blockchain is a technology originally developed for Bitcoin and later adapted for use across various industries (and other cryptocurrencies), which creates an immutable record of transactions in a decentralized digital ledger that cannot be altered. Every time there is a transaction, an asset being paid for or sold, a new line of information is added to the digital account book, a copy of which is on the users' computer. Big tech companies are developing new NFT platforms these days, and quick entrepreneurs are developing digital marketplaces for trading in these digital asset.

In the context of art, NFTs provide unique and clear proof of ownership of the artwork (digital art usually, but also a physical artwork), and proof of authorship by the artist since the minting artist is always listed as the original owner of the digital artwork linked to the NFT. Issuing a token links information about the item and its minting on the blockchain. The creator or artist remains the copyrights owner of the work, and the buyer receives a proof of ownership certificate minted into the blockchain, which includes the provenance – the history of past owners (not by name) and past sale prices. The ability to store information, to track data, the transparency of blockchain, and the fact that the information is stored on it and cannot be forged - all these provide an answer to one of the biggest downsides of the art world – opacity. This opacity is further intensified by the interests of various stakeholders, complicates transactions, raises the bar for entry into the art market, and requires a lot of resources from those who wish to gain authentic information in this market of asymmetric information. The lack of

transparency, addressed in every analytic report ever published about the art market, inhibits the ability of this market to grow and expand.

The minting procedure made possible by NFT platforms, which defines the ownership of an artwork, allows artists to sell their work to potential buyers and collectors without the need for a middleman, a dealer or gallery. Most of the platforms allow you to put into the NFT both the ownership and the format of sale in the marketplace, and work in a few models. Some platforms are curated and invite-only (e.g. Nifty Gateway, Knoworigin, Foundation, SuperRare) and some require user verification before engaging in transactions (e.g. Rarible, Foundation). These platforms charge a fee for their services (both from sellers and from artists at a rate of 3-15%).

The digital design industry has always been lacking a real business model (except for direct orders from commercial companies), and most digital work was performed without compensation, distributed online, becoming public and accessible to all, or sold by sale platforms, leaving creators with a meager share of the revenue or copyrights. It is therefore no wonder that the global creative industry (music, art, design, video) is hyped up about this new technology. One of the clear benefits of selling digital art through blockchain technology, as opposed to more "traditional" art market transactions, is the automated resale royalties trickling back to the artist. Although the *Droit de suite* law, an artist's right to track the resale of his work and receive royalties is not applicable in every country. Current U.S. law does not entitle artists to a percentage of the resale profits made by collectors on the secondary market. Even if the artist signs an agreement with the above provision, it is extremely difficult to enforce it. Blockchain technology offers a solution for the inclusion of the resale provision using smart contracts. Smart contracts are a piece of self-executing code, a series of automated "if, then" conditions that allow for the distribution of funds, like resale royalties, to a named individual upon *each* transaction. Most of the NFT markets include in their smart contracts resale royalties for the artist at a rate of 10%, and even offer some flexibility when it comes to the rate of resale royalties.

The disruption of NFT technology in the traditional art market seems surprising, since the art world is notoriously slow at adopting new technologies. A famous joke says that the most advanced technology in the art market is the info screen at public auctions. However, the connection between new technologies and the world of art has been evident since the days Vermeer used optical camera obscura techniques, and the dramatic influence the invention of photography in the early 19th century had, releasing artists from the obligation to portray a copy of reality and allowing them to create abstract, impressionist art in the early 20th century, as detailed in the essay "The Work

of Art in the Age of Mechanical Reproduction", in which Walter Benjamin examines the changes in art brought about by photography and cinema. Ground breaking artists like Marcel Duchamp, who engaged in kinetic art, and Andy Warhol, who used computer generated images are two famous examples, but artists have always made rich use of technology in the creation process.

The internet and social media have had tremendous influence on the art market in recent years, but it seems the past Covid year has had the greatest effect yet on online activity, which constitutes 25% of total sales as of today. Global wealth, which as mentioned above is in the midst of inter-generational transition, Covid state grants, a thriving crypto industry (cryptocurrencies only valued in April at $2 trillion) - all provide some explanation about the art market being disrupted by NFT technology.

There are still some challenges and obstacles, and a lack of regulatory clarity which is a natural result of the fast entry of new technologies into global markets. Forgery, reproduction, including copyrighted images in an NFT, and minting a digital artwork without express authorization by its author - may result in litigation, and the infringer will have to argue and prove that their use is "fair" under copyright law. Court regarding fair use take into account the similarity between the original work and the allegedly infringement's work, as well as the uses and applications of the NFT.

There are security issues, issues regarding the low energy efficiency and negative ecological footprint of blockchain mining, and claims that the fees charged by the ethereum network make the transactions very expensive. There is also a problem with inter-operability between the platforms – automated royalties to the artist only work if the NFT is resold using the same platform. But these are growing pains of a new technology which will likely be resolved once regulations are determined for the blockchain industry.

According to sceptics, the whole NFT business is a bubble, gimmick, or a Ponzi scheme, which practically sells "air". The buyer does not even get a file containing an artwork, just a piece of code linking to a URL containing a digital file of the artwork. Others are amazed with the prices of a small number of NFT works in the traditional art market (graphic artist Beeple sold his work at a Christie's public auction for the unbelievable amount of $69 million, and Twitter founder Jack Dorsey sold his first-ever tweet for $2.5 million).

The current market value of NFT blockchain technology is estimated at $878 million, used mostly for authenticating digital artworks (49%), computer games (11%), collectables items (31%), virtual real-estate (8%) and online domains (1%). However, we

are now witnessing the initial stages of the NFT revolution. In the near future it is expected to be used for copyrighting songs, videos, memes, articles (like the recently sold Times article), sportspeople and celebrities collection cards, real-estate registration, architectural plans, fashion illustrations and ownership of physical objects like cars, watches, sneakers, and collector's items. This technology is even likely to decrease the prevalence of fake news in the mainstream press and social media by validating items from reliable sources.

The many possible uses of the NFT are but the tip of the iceberg when it comes to blockchain applications in various industries: finance, insurance, investment, loans, airlines, agriculture, transportation, medicine, food production and more. In addition to applications in the fields of real estate, energy and tourism, this technology will also assist to define a decentralized digital identity, create smart contracts, autonomous organizations whose employees are also shareholders and owners of the corporation (DAO –Decentralized Autonomous Organization), Internet of Things (IoT), international trade and cyber security. Blockchain technology is breaking into new markets, creating new and innovative business models, and bringing about a paradigm shift, much like the internet did for the business world, media and society as a whole.

It is hard to predict the scope and depth of change in behavior patterns and the economic ramifications, and it is yet unclear how substantial a tool will NFT become for the blockchain industry. Businesses, governments, entrepreneurs and investors are studying the opportunities and possibilities of this technology, and how to use it under the current (partial) regulation. All in the hope that today's skeptics, will not be mocked by Banksy in the future.

Short Bio

Dr Perry serve as an expert and consultant for innovation, blockchain, and R&D. Former research director at The Open University of Israel and CEO of its TTO Company. Her first Ph.D. is in Information Science, specializing in KM in Higher Education and Technology Transfer and Innovation, second PhD research in Art and Culture Sciences. Served as a board member at EARMA (European Association for Research Administration), an active expert at the EC ERC-PoC . She is engaged in projects at the Blockchain experts groups in the WEF World Economic Forum, ISO Blockchain Governance experts group and other international organizations as European Blockchain Association and Blockchain Alliance Europe. Dr. Perry is an established consultant in Blockchain strategy to corporates, startups and investors in the fields of 4th Industrial Revolution Technologies. Dr. Perry is the founder of DAO4DAOs Institute and BUG Blockchain University Global and **ABC - Art, Blockchain and Community**. Dr. Perry is the author of a dynamic, digital open e-book : "Blockchain - Turning Ego system to Ecosystem". Contact: drmillyperry@gmail.com