

## Excess All Areas: The Art Market Now

CLAIRE WALSH ASKS JAMES GOODWIN ABOUT INVESTING IN ART

Sotheby's certainly pulled out all the stops for its preview of the Damien Hirst sale, 'Beautiful Inside My Head Forever' last September. Behind the doors of the Bond Street building lay a brightly lit Narnia whose atmosphere was pitched somewhere between the glamorous shops on Via Condotti and a lay cathedral. Hirst's butterfly paintings glowed like stained glass windows; the reliquary vitrines containing synthetic diamonds (and cigarette butts) glittered; the sacrificial beasts, among them the 10-tonne 'Golden Calf', waited in their formaldehyde-filled tanks, on specially strengthened floors. There were the safe boardroom choices, the dots and spins in all sizes; also Hirst's drawings with their knowing marginal comments: 223 works in all, to be sold direct, bypassing Hirst's dealers, Gagosian and White Cube.

Hirst's ebullient manager, Frank Dunphy, was much in evidence but if any serious buyers were there, they must have been in the chic, new VIP suites. The viewers (21,000 across the days of the preview) were mostly the curious, like me, augmented by silky-smooth Sotheby employees and security guards. The day I visited, however, I noticed one person who clearly did not share the general excitement: an anonymous elderly gentleman, sitting bolt upright in the foyer, clutching a box of china figures he had brought in for valuation. Everything about him exuded disapproval – his body language said: 'Make it go away – the hubbub, the hype, this sale, what it represents. Just make it go away'. The extraordinary thing was, his wish was about to be granted.

There was one last hurrah: the Hirst profits were even higher than the estimates, a total of £111.4 million, ten times the previous record for a single artist. The sale had been successfully promoted to buyers in Russia, the Middle East, China, India: 25 per cent of the first-time bidders came from the 'new' markets. There were fewer Americans than anticipated; as it happened, Lehman Brothers in New York fell on the first day of the auction. Days later Lehman's disgraced CEO, Richard Fuld, and his wife put up some of their own important post-war drawings for sale: the

bids did not meet the estimates. Lehman got approval from the bankruptcy court to sell some of the 3,500 pieces in the company's art collection; it is a fair bet that much US (and European) corporate and private art bought in the heady period when sellers dictated prices will follow suit.

Both Sotheby's and Christie's have been restructuring to reflect loss of sales. Annual growth, which had more than doubled in 2006/7, fell 17 per cent last year. Even at the Art Basel Miami Beach fair in December, dealers were prepared to drop their prices. Meanwhile about half Damien Hirst's London-based workers, who made the butterfly paintings and the pills for the cabinets, were laid off. Hirst was quoted in the *Independent* as saying that art had probably become too expensive: 'I think it's quite good [the fall in prices] because it became unreal ... You start to think you are touched by God. I have always thought that art is worth what the next guy is prepared to pay'.

The crash should not have come as a surprise: a downturn was beginning to become evident in November 2007, when Impressionist and modern art failed to meet pre-sale estimates at Sotheby's in New York, and the ArtTactic Art Market Confidence indicator fell 40 per cent. Yet growing numbers of wealthy buyers from the new markets helped keep prices for new art, in particular, absurdly high, fuelling the illusion that art sales were a 'special case'.

Is this the right climate for a new guide on investment in art? James Goodwin, editor of *The International Art Markets: the Essential Guide for Collectors and Investors* (Kogan Page, £55, ISBN 978-0-7494-4835-6) thinks so – particularly if it can identify new markets. Goodwin lectures on the art market at Christie's Education and at Maastricht, City and Kingston universities. He has written for *The Economist*, *Financial Times*, *Wall Street Journal* and *Investors Chronicle*.

His guide covers 43 countries throughout the world, from sub-Saharan Africa to the USA. The brief is to provide, in a few pages, a survey of local art history and art market history, structure and performance; and tax and regulation. The results are not uniform, a few are perfunctory, but most offer useful insights into largely

little-known art markets and are packed with information, some including bibliographies and weblinks.

There are 58 specialist authors, from established art business figures to younger experts. Many are based in Sotheby's and Christie's branches and each will also act as a consultant for their chosen country.

**James Goodwin:** 'I was as astonished as anyone else the day the Lehman Brothers fell down but it had become clear to me that at some point there would be a financial set-back in the Anglo-Saxon economies, where 70 per cent of the world's art, by value, is still traded. UN statistics include a broad category covering works of art, collectors' pieces and antiques. Adding imports and exports, the figures came to \$US 41 billion in 2007, 21 per cent up on one year, which was unsustainable, regardless of what was happening in the wider financial world.

'With this book I wanted to show people how art markets work and to give them the confidence to realise that there are good, viable markets for investment outside London and New York. I also wanted artists to be mentioned in each chapter so that people could see who made the art history in that country.'

**CW:** Isn't there a dichotomy between private buyers and the public, who want access to art? When prices have soared, as they have done for some time, it is almost impossible for museums to buy art in competition with wealthy investors.

**JG:** 'If you own art in the private sector it is in your own interests for it to be seen because that's what gives it its value. And members of the public can go round the Deutsche Bank collection, or Fleming's ... Art that disappears into a museum, the private sector might say, reduces supply but if it's out of the public eye, it loses value. It has to be seen.'

**CW:** You are pretty critical of public museums in the UK. You say that only 20 per cent of paintings in the public sector are on display, and that many works are virtually inaccessible to art historians, and you suggest 'unwanted' art could be sold off to the private sector or loaned out for a fee.

**JG:** 'To me, a museum is a business. Just because it's in the public sector doesn't mean it should be immune from business principles. My point is that if you're running a business and have too much stock, which is unused, you are asking for trouble when the money dries up. The American system is, sell off what you don't think you need or is extraneous; keep the best, because the museum must remain the shrine for the best art and the best scholarship, and use the money to subsidise the café and buy new art. We're fairly good in this country but I look towards the United States, their museums are wonderfully dynamic.'

'My thinking is quite simply that in 15 years' time there will not be the money to spend on all these things. Philanthropy is important in America and that's what we need to encourage and embrace. In the same spirit as Frick and JP Morgan, wealthy people can say, the museum will have my collection. The whole point of owning art is for it to give you pleasure and in many cases to show it off.'

'However, one thing does bother me. There's a strong correlation between prices for an artist and exhibitions of their work and this seems to be more coordinated now. This is a grey area and there is the danger that a private incursion into the public sector is going to corrupt things. I like scholarship to be separate.'

**CW:** You say art is mostly bought for pleasure and the status it brings; I'm sure you're right but there have been plentiful examples of 'flipping' in auctions – art bought purely for quick and profitable resale.

**JG:** 'I've seen one survey, from Axa Art Insurance, in which only three to four per cent of people asked said they bought art for purely financial reasons, while 75 per cent bought for collecting – one assumes long-term, say 30 years. My hope and my research suggest that if you have art in your investment portfolio it reduces risk and gives you a slightly higher return. It's very difficult to know what to buy with it but it is a product that can, and has, been marketed.'

There are precedents for most things: Holman Hunt, who circumvented the Royal Academy with his painting *The Finding of the Saviour*, was the Damien Hirst of his day, according to an interesting article by Carol Jacobi [*Guardian*, 16 September 2008]. And Hirst's employment of assistants is hardly



new in art history. As to the marketplace, James Goodwin reminded me: 'The Medicis used art as collateral for their banking system and in terms of pure investment, the original stock exchange in Antwerp had an area trading in art like a futures market.'

Yet art was not considered seriously as part of a broader investment portfolio until around the late 1960s. The Times-Sotheby Index, started in 1967 and dropped in 1971, was the first to list prices art reached at auction, as though it were any other kind of commodity or stock-market share. Some high-profile auctions, such as Robert Scull's modernist and Pop art collection in 1973 and the sale of Van Gogh's *Iris* in 1987, resulted in spectacular profits for the sellers; while the auction houses marketed themselves more vigorously, particularly in the wake of Alfred Taubman's purchase of Sotheby's in 1983.

Institutional investment took art seriously – but underlying questions about rates of return will not go away. A seminal paper, William Baumol's 'Unnatural value or art as a floating crap game', was published at the height of the last art boom [*American Economic Review*, May 1986]. It concluded that it was an illusion to think artworks would produce a rate of return exceeding the cost of their investment (other economists have queried the price data used). Currently there is a plethora of price indices, of which the best known is the Mei Moses. This uses data from repeat sales of a particular work from 1925 to determine its annual return; it is accurate and very extensive but cannot make predictions about art as a category –

Auction of Impressionist and Modern Art, 6 February 2007 at Christie's London. Amedeo Modigliani, *Homme au chapeau*, 1915. Estimate: up to £3,400,000; sold: £3,940,000. Christie's Images Ltd.

which suggests that art is not quite like any other tradable commodity.

The art market will certainly recover from the slump – although it will be interesting to see how many reputations survive and whether any greater transparency is brought to it. Any change of focus away from money and towards the work would be welcome. I cannot share Goodwin's belief that public art will be saved by private philanthropy. Quite apart from the fact that philanthropy will be in short supply in the coming years, there are real dangers in the power relations associated with the privatisation of public art. Nonetheless, UK tax concessions to living donors in exchange for gifts of art to public museums would remove some of the current anxieties about fundraising. For the future, Goodwin is surely right to point to greater globalisation. Thankfully, the grossly inflated Chinese bubble has burst but India is riding high and, according to Bloomberg, interest is growing in South-East Asian art. And collectors will continue to collect. Ronald Lauder, who paid \$US 135m for Klimt's *Adele Bloch-Bauer* in 2006 says: 'I'm starting to buy 13<sup>th</sup>, 14<sup>th</sup> and 15<sup>th</sup> century art because nobody's buying it. The more scholarship involved the better' [*Financial Times*, 27 December 2008]. You have been warned.

CLAIRE WALSH  
Birkbeck College