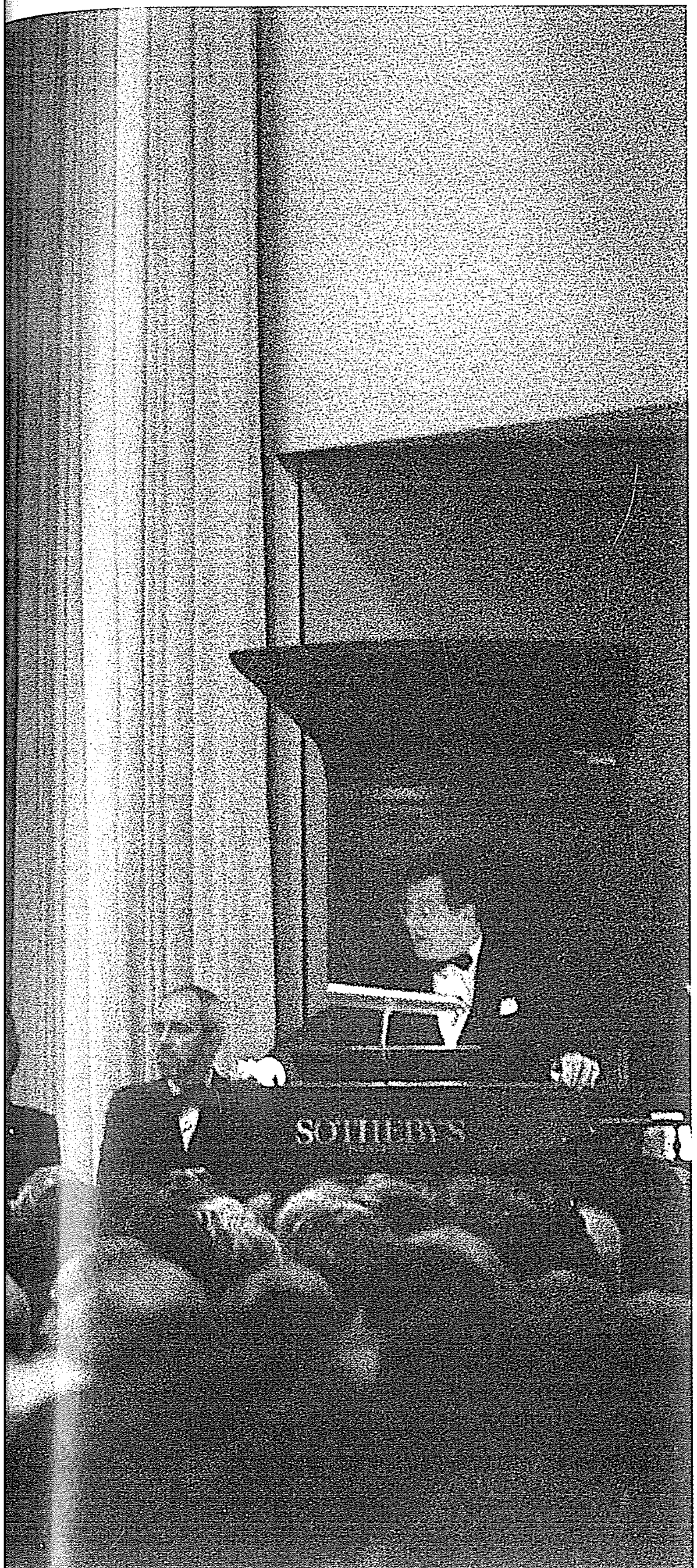
Vincent van Gogh's *Irises*, 1889, at auction, Sotheby's, New York, November 11, 1987. Photo: Mark Caldwell/Getty Images.



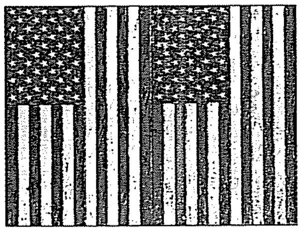
Accounting for Taste

OLAV VELTHUIS ON THE ECONOMICS OF ART

ON NOVEMBER 11, 1987, less than a month after stock prices on Wall Street saw the largest one-day decline in their history, Vincent van Gogh's *Irises* sold at Sotheby's in New York for $53.9 million. At the time, this was the highest price ever paid for a work of art. And while the *Irises* sale may be the most dramatic manifestation of the disconnect between the financial sector and the art world, such incongruities are more the rule than the exception. As recently as February 5, 2008, as the Dow Jones lost 370 points (its steepest decline in a year), Sotheby's London brought in £117 million ($231 million) at its modern and Impressionist art sales. Sixty percent of the lots went for prices above their high estimates. In spite of copious amounts of research on the topic, no economist has ever been able to prove that art prices consistently follow the stock market's upward or downward movements. So the fact that Wall Street is currently in the throes of one of its worst crises since the 1930s—due to the collapse of the American housing market, which eroded the value of securitized mortgages owned by banks, hedge funds, and other financial institutions—is in itself no reason to expect a collapse of the art market.

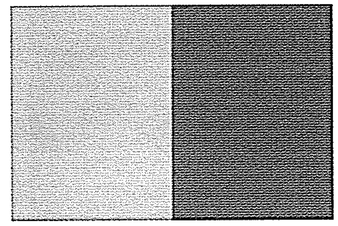
Then again, the contemporary art market has become so overheated that, even in the absence of a crisis in the financial market, a downturn would seem inevitable. A recent survey of 155 international art collectors by London-based research firm ArtTactic indicates that confidence in the contemporary art market dropped 40 percent between August 2007 and January 2008. Should these fears be borne out (or should they turn into self-fulfilling prophecies), then a glance at the last shakeout would seem

1988
Andy Warhol,
Twenty Marilyns (Marilyns in Color), 1962
$3,960,000
(Sotheby's)

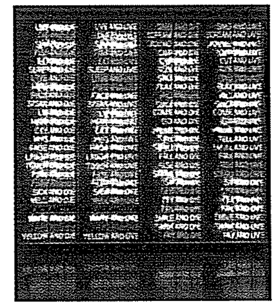


1989
Jasper Johns,
Two Flags, 1973
$12,100,000
(Sotheby's)

1990
Francis Bacon,
Portrait of George Dyer Staring into a Mirror, 1967
$3,850,000
(Christie's)



1991
Brice Marden,
Grove Group II, 1972–73
$825,000
(Sotheby's)



1992
Bruce Nauman,
One Hundred Live and Die, 1984
$1,925,000
(Sotheby's)

the best way to get a sense of how the art world might look and feel in the aftermath. Having blithely hummed along for years in the wake of the '87 Wall Street fiasco that came to be known as Black Monday, the art market finally crashed in 1990. At a Sotheby's sale in New York in November of that year, a work by archetypal '80s art star Julian Schnabel—the 1988 plate painting *Anh in a Spanish Landscape*, which was expected to go for around $400,000—elicited just a few anemic bids and failed to sell. "After some silence, cynical laughter and a round of applause followed," a *New York Times* reporter observed. All told, more than half of Impressionist, modern, and contemporary works at Sotheby's and Christie's went unsold that fall. Between July 1990 and July 1992, auction prices for individual works of art decreased 44 percent on average. Meanwhile, artists who had been featured in lifestyle magazines only a few years before were all but forgotten. Numerous galleries in New York, Zurich, Cologne, London, and elsewhere closed up shop.

When I was interviewing contemporary art dealers in New York in the late '90s for a book on their pricing strategies, however, nobody expressed regret. By that time, the art market had recovered—but the business was different, the gallerists assured me. They claimed that the artists they represented shunned

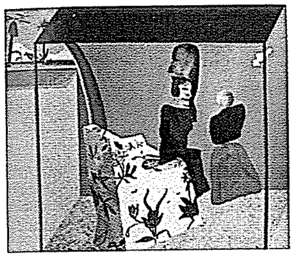
"The feeling of the market here is so disgusting. Painters and paintings go up and down like Wall Street stock," Marcel Duchamp complained to Alfred Stieglitz. Yet however ubiquitous it may be, this trope is wrong. Paintings and painters may "go up and down," per Duchamp, but the logic to which they oscillate is not that of Wall Street.

public attention, were not interested in driving up prices, and preferred to keep their studio doors closed to overly eager buyers. The collectors these dealers "worked with" were not buying "names." They were discriminating, and they decided with their eyes rather than allowing themselves to be blinded by hype. The dealers' own business practices were much more prudent and sober as well: They no longer felt comfortable doubling an artist's prices with each exhibition, organizing lavish parties to launch the career of a young painter, or offering hefty stipends to up-and-comers in order to lure them away from rival dealers.

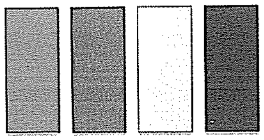
This new ethos turned out to be perishable. By the time my book was published, in 2005, prices for contemporary art had surpassed their '80s peak. In the following two years, prices rose even faster, making the boom of two decades before seem a mere bump. Between 2002 and 2006, turnover at contemporary art auctions more than quadrupled. In 2007, contemporary art sales at Christie's totaled $1.5 billion, 75 percent more than the year before. At Sotheby's, they doubled to $1.3 billion, making contemporary art the highest-grossing auction category for the first time in the company's history. Phillips de Pury & Company more than doubled sales of contemporary artworks and photography. The number of art galleries also grew at an unprecedented pace: Chelsea now boasts around 250 art galleries, 50 percent more than in 2001, and more than double the number in SoHo in the late '80s.

What comes around goes around. The causes of the recent dramatic increases in sales and prices of contemporary art and in the number of galleries are remarkably similar to those of the '80s. New collectors from Mexico, Brazil, Russia, and, more recently, the Middle East and Asia entered the market, just as Japanese collectors did before them. Unlike those Japanese collectors, however, these buyers do not make their purchases exclusively in Western art capitals such as London and New York, but also closer to home. Between 2003 and 2006, contemporary art auction sales in China increased one hundred times, to $129 million, according to Artprice.com, the art market's primary data broker. Last year, Christie's auction revenues in Asia rose 38 percent. In November 2007 at Christie's in Hong Kong, a work by Chinese artist Cai Guo-Qiang (whose retrospective is currently on view at the Solomon R. Guggenheim Museum in New York) sold for $9.5 million, setting a record for the contemporary Asian art market. Apart from the expenditures of emerging-market collectors, hedge-fund money has been flowing in from billionaires or near billionaires such as Steven Cohen, Daniel Loeb, and Kenneth Griffin, trumping the excesses of the millionaire Wall Street traders who flocked northward to SoHo to spend their bonuses in the '80s.

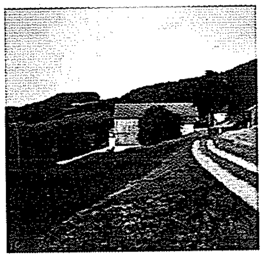
But an equally significant factor fueling the boom—perhaps the fundamental one—is this: From the early years of this decade until last fall, money, quite simply, was cheap. Whereas the United States' federal funds rate, the key interest rate with which the Federal Reserve attempts to calibrate the nation's money supply, hovered above 6 percent during much of the '80s, peaking at close to



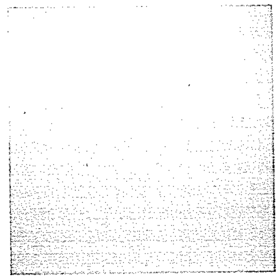
1993
David Hockney,
California Art Collector, 1964
$1,020,000
(Sotheby's)



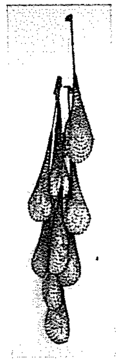
1994
Ellsworth Kelly,
Green Red Yellow Blue,
1965
$805,500
(Sotheby's)



1995
Gerhard Richter,
Scheune (Barn), 1984
$965,000
(Sotheby's)



1996
Agnes Martin,
The Tree, 1964
$525,000
(Sotheby's)



1997
Eva Hesse,
Untitled, or Not Yet,
1966
$2,202,500
(Christie's)

10 percent in 1989, it hit 1 percent in 2003—the lowest level since 1958. In short, money was virtually free to borrow for a period of several years. Helped by Chinese savings and petrodollars from the Middle East flooding global capital markets, these interest rates enabled investors to fill their pockets to bursting with "cheap money," which, in turn, led to inflated prices for all assets: equities, commodities, and real estate, as well as fine art. As an indirect result of this excess of capital, or liquidity boom, art prices have risen steeply and, in the case of contemporary art, vertiginously. The most expensive contemporary artworks—those in the top quarter of the price range for works sold at auction, according to an index compiled by Art Market Research—quadrupled in price over the last decade, while prices for modern art tripled and the value of old masters doubled. A canvas by an above-average seventeenth-century Dutch painter who is safely anchored in the canon now costs less than paintings by many artists whose careers have lasted less than a decade and may not endure for another one.

With the arrival of new money in the art market, the old culture of the '80s returned. Just as they had twenty years before, art dealers extended their gallery networks in order to maximize profit from global demand, either branching out on their own (Larry Gagosian now has spaces in New York, Beverly Hills, London, and Rome and, rumor has it, plans for an office in Shanghai or Beijing) or teaming up with others (as the New York–based David Zwirner and the Zurich- and London-based Iwan Wirth did in 2000, when they opened a New York gallery together). With increasing frequency, artists began ditching the dealers who had nurtured their careers in favor of larger checks or bigger gallery spaces. And at art school graduate exhibitions, students sold work for prices that would once have made a midcareer artist blush.

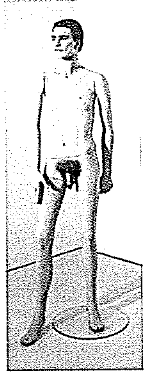
Indeed, the critique put forward by 1989 Whitney Biennial curators Richard Armstrong, Richard Marshall, and Lisa Phillips, who noted in their catalogue essay that "we have moved into a situation where wealth is the only agreed-upon arbiter of value" and that "capitalism has overtaken contemporary art, quantifying and reducing it to the status of a commodity," sounds uncomfortably up to date. In fact, during the current boom, too, critics have complained that artworks have been transformed into speculative objects, and the art market into a branch of the securities markets. It's a trope with a long history in the annals of modern art. In 1856, for example, when the gallery system as we know it was just beginning to take shape, Edgar Degas wrote: "It's as if pictures [nowadays] were being painted by stock-exchange players, by . . . people avid for profits. Apparently you are supposed to rely on the mind and the ideas of your neighbor in order to do anything at all, much as a businessman requires the capital of other people in order to earn a sou." Some sixty years later Marcel Duchamp echoed him. "The feeling of the market here is so disgusting. Painters and paintings go up and down like Wall Street stock," he complained to Alfred Stieglitz.

Yet however ubiquitous and however venerable it may be, this trope is simply wrong. As the *Irises* sale reminds us, paintings and painters may "go up and down," per Duchamp, but the logic to which they oscillate is not that of Wall Street. The idea that Steven Cohen, for instance, who reportedly made around a billion dollars hedging his bets in 2005, would spend $8 million on Damien Hirst's shark (aka *The Physical Impossibility of Death in the Mind of Someone Living*) with the sole idea of reselling it for a handsome profit is simply absurd. New money from Wall Street financiers or real estate entrepreneurs enters the art market precisely because it *is* new: These buyers have a tremendous surplus of economic capital and an equally large deficit of social and cultural capital, to put it in the late French sociologist Pierre Bourdieu's terms. By buying contemporary art, they buy access to a social world. When they spend hundreds of thousands or even millions of dollars on goods whose long-term value is far from guaranteed, these collectors engage in a kind of potlatch, even if here they are accumulating status not by purposely destroying wealth but by risking it. And by subsequently loaning or donating these works to museums, they further increase their social standing, as Cohen did when he agreed to loan Hirst's shark to the Metropolitan Museum of Art in New York for three years.

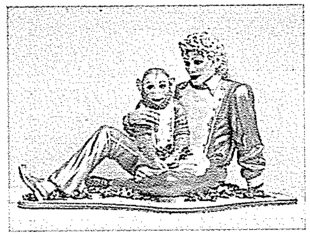
The problem, however, is that this quest for status has introduced more money into the contemporary art market than it can readily absorb. Price inflation is, of course, one result. But another, more significant effect of this unprecedented capital flow is the erosion of egalitarian values. Of course, elitism is fundamental to art. The art market—like most capitalist markets, for that matter—has never been a bastion of democracy. Museum directors, for instance, have lamented for decades that masterpieces disappear from public institutions because such institutions are routinely outbid by private collectors at auction and priced out at blue-chip galleries. Furthermore, it has always been the case that most art lovers cannot afford to buy work they might wish to own, even if it is relatively modestly priced, and must content themselves with the vicarious

1998
Lucian Freud,
Large Interior W.11 (After Watteau), 1981–83
$5,832,500
(Sotheby's)

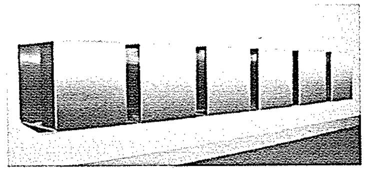
1999
Chuck Close,
Cindy II, 1988
$1,212,500
(Christie's)



2000
Charles Ray,
Male Mannequin, 1990
$2,206,000
(Christie's)



2001
Jeff Koons,
Michael Jackson and Bubbles, 1988
$5,615,750
(Sotheby's)



2002
Donald Judd,
Untitled, 1966–67
$4,629,500
(Christie's)

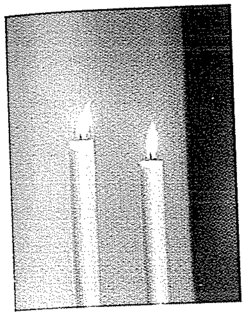
promiscuity of gallery-hopping. And yet the current market seems as if it has undergone a qualitative leap, resulting in a situation that is different not only in degree but in kind from that which preceded it.

Here is the math: Since the mid-'80s, the most expensive contemporary works of art—again, as defined by the aforementioned Art Market Research index—have on average increased eighteen times in price. In the same period, the average per capita income in the United States, the richest country in the world, tripled. The most coveted works of contemporary art, in other words, have become six times less affordable, which is to say, the wealth needed to buy these works has increased dramatically. Of course, on the gallery circuit, works of art are still available in the four-digit price range, and elsewhere sell for even less. But even the faintest indication that an artist's career might take off suffices, nowadays, to add another digit—work by "emerging artists" rises in value with astonishing speed. By way of gaining some perspective on this, consider the collecting career of Dorothy and Herb Vogel, the middle-class New York couple who, beginning in the '60s, famously accumulated an astonishing collection of Minimal, post-Minimal, and Conceptual art. They bought early and astutely, yet still strained their finances to the limit, living off of Dorothy's librarian's salary and devoting Herb's postal-clerk wages to art. Today, you would need a ménage of one librarian and several postal workers to achieve the same thing. The point is not to mourn the plight of middle-class collectors (a rare species at the best of times), but to suggest that contemporary art is receding toward a kind of commercial sublime, barely accessible to all but a very few.

This increased inequality finds its counterpart in the incomes of contemporary artists as well. The art market is a winner-take-all market, to use economists Robert H. Frank and Philip J. Cook's phrase, meaning that large numbers of workers earn hardly anything and a small number enjoy superstar incomes. The explanation for the winner-take-all phenomenon is the need for a common culture: The status effect of buying a given work of art materializes only if the artist's name and reputation are widely recognized. This means that a large number of buyers are going after a small number of artists, so that small differences in perceived talent will be extrapolated into huge differences in income. During the current boom, the income distribution among artists has become even more skewed, paralleling the increasing income disparities in the economy at large. For instance, while the most expensive contemporary artworks sold at auction in 2004 cost on average twice as much as the most expensive contemporary artworks sold in 1998 (indicating that the income of the world's most coveted artists increased by 100 percent), the median income of visual artists in the US increased only 22 percent over the same period, to $38,000 a year, according to a report by the National Endowment for the Arts.

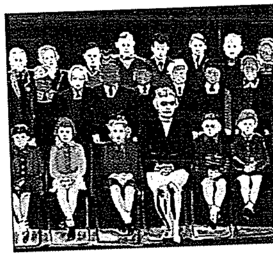
But there is one phenomenon that, more than any other, both symbolizes and apotheosizes the current boom's erosion of egalitarian values: the waiting list. This perverse business practice has been around since the '80s (when dealer Mary Boone introduced it for the likes of Schnabel and Jean-Michel Basquiat). Nowadays, it is so widespread that few art-world insiders stop to think about the odd fact that, when it comes to the most successful artists, dealers don't work on a first-come, first-served basis, but instead put selected prospective buyers on a list and parcel out new works as they become available. Neoliberals have argued that markets exemplify democratic values because they allow citizens to "vote" with their money, excluding no one who is willing to pay the asking price for an item. Waiting lists, however, turn even this rationalization on its head, since under this system, money no longer suffices to gain access to goods.

From a mainstream economic perspective, these waiting lists are no less peculiar than the daily queues in front of Moscow supermarkets before perestroika. What they indicate is that dealers are not raising prices fast enough, given the strong demand for an artist's work. Thus, gallerists are voluntarily giving up extra profits for themselves and for their artists. Contemporary dealers, however, present the matter differently, saying that the waiting list enables them to screen their customers and "place" artworks, as if they were their own children, in the safe hands of loyal collectors. Ideally, these collectors will promise to donate the work to a museum, thereby increasing the prestige of the artist and, indirectly, of the dealer as well. If they sold on a first-come, first-served basis, dealers argue, the works might end up in storage or, worse, at auction. Furthermore, gallerists insist that maximizing prices when there is more demand for an artist's work than he or she can supply would be counterproductive anyway, because it would introduce volatility. Prices for an artist's work would indeed go up when demand is strong, but they would fall when demand wanes. And that is exactly what dealers want to avoid. Any decrease in prices, they claim, would send a negative signal to collectors about the quality of the work and would hurt the self-esteem of the artist.

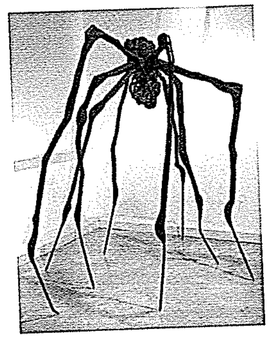


2003
Gerhard Richter,
Zwei Kerzen (Two Candles), 1983
$3,816,000
(Sotheby's)

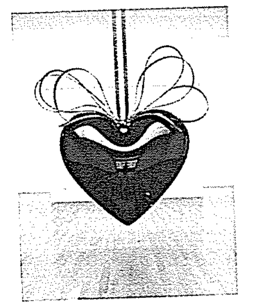
2004
Maurizio Cattelan,
Not Afraid of Love, 2000
$2,751,500
(Christie's)



2005
Marlene Dumas,
The Teacher (sub a), 1987
$3,339,517
(Christie's)



2006
Louise Bourgeois,
Spider, 1997–99
$4,048,000
(Christie's)



2007
Jeff Koons,
Hanging Heart (Magenta/Gold), 1994–2006
$23,561,000
(Sotheby's)

This defense of a Soviet-style practice makes sense at first glance, but think about it for a second: How rational is it to try to use the waiting list to control auction sales? If collectors cannot get an artist's work at his or her gallery, or at least not within a reasonable time frame (and waiting periods of several years are far from unusual), they have an incentive to bid at auction when a work by that artist comes up, in spite of the higher price they are likely to pay. Claiming that waiting lists are necessary because they stabilize price levels and forestall decreases and concomitant declines in collectors' opinions of an artist's work is equally problematic. If the collectors with whom dealers work are indeed loyal, why should they complain if an artist's work begins to sell for less, since such a decline stands to lower the cost of goods they may wish to purchase in the future? In what other market do prospective buyers mind when prices get lower? What is one to think of collectors' sensibilities if, as dealers assert, a price decrease is all it takes to make them doubt the aesthetic value of a work of art?

Think about it for a second: How rational is it to use the waiting list to control sales? If collectors cannot get an artist's work at his or her gallery, they have an incentive to bid at auction. It makes more sense if one considers it from a different angle: The waiting list enables dealers to accumulate symbolic capital.

It makes more sense if one considers it from a different angle (albeit one that dealers are less likely to bring up). The waiting list is first of all a practice that enables art dealers to accumulate symbolic capital: By claiming they are not interested in selling to the highest bidder, dealers are, as Bourdieu would put it, denegating the economy. In showing that they are working for art rather than for money, they establish and reaffirm their reputation in the art world. This, in turn, enables them to consecrate (again per Bourdieu), or bestow legitimacy and value on, the artists they represent. Moreover, waiting lists are an extremely efficient instrument for the management of client relationships. The most precious favor a dealer can bestow is to let a collector jump the list, granting him or her first choice before the opening of a much-anticipated exhibition of new work. And this gives them the leverage to request favors in return. (The much-discussed lawsuit brought by collector Jean-Pierre Lehmann against dealer Christian Haye in 2005 was an example of this favor economy gone awry. Haye, Lehmann said, reneged on a promise to offer him right of first refusal on works by Julie Mehretu in return for a $75,000 investment in Haye's gallery, The Project.) Finally, in exchange for the economic capital gallerists forgo by choosing not to maximize prices, they gain the power to decide who gets to own which sought-after artworks. Art dealers have always been the gatekeepers of the art world, the first hurdle that young artists have to clear; now, via the waiting list, dealers also control the market's rear.

And so, if you look at the boom from the standpoint of how it has affected the distribution of symbolic capital, dealers may be the biggest beneficiaries of all. Of course, it would be naive to think that gallerists will voluntarily abandon a practice that clearly serves their own interests. But it would be equally naive to think that waiting lists have become an indispensable and permanent part of their business repertoire. Indeed, in the early '90s, as the market crashed and prices decreased, waiting lists evaporated. Dealers abruptly found themselves having to offer discounts to close their sales. The era that followed was, if not exactly democratic, certainly the most egalitarian phase that the art world has known in the last three decades.

Most people who contemplate (whether with hope or dread) the prospect of an impending crash think in terms of the economic capital that anxious collectors may pull out of the market. Last fall, Ian Peck, chief executive of the private lender Art Capital Group, summed up this view, telling Deborah Brewster of the *Financial Times* that "a lot of Wall Street guys now, the ones who were buying contemporary art, are worried about losing their jobs, their bonuses, and when your financial well-being is under threat the first thing you stop doing is buying multi-million dollar artworks." But top-tier art dealers and the superstar artists they represent will lose more than just economic capital if those predictions come true. We might also think in terms of their symbolic capital, much of which will evaporate if the market crashes—starting, perhaps, with the demise of the waiting list. As wealthy collectors cease to channel their cash with abandon into contemporary art and as prices come down, democratic values will, to some extent at least, resurface. □

OLAV VELTHUIS IS THE AUTHOR OF *TALKING PRICES: SYMBOLIC MEANINGS OF PRICES ON THE MARKET FOR CONTEMPORARY ART* (PRINCETON UNIVERSITY PRESS, 2005). (SEE CONTRIBUTORS.)