ARTY FACTS

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# Beautiful bubbles burst

Art prices are subject to boom-and-bust cycles, and yet there's always a new wave of buyers ready to believe that this time round the market will keep on climbing.

IN JUNE 2007, A VERY FAMOUS WORK OF ART went on display at a very famous art gallery in London. Amid heavy security, a platinum cast of a human skull encrusted with 8 601 flawless diamonds was offered to a market that seemed possessed by an almost insatiable hunger for Contemporary art.

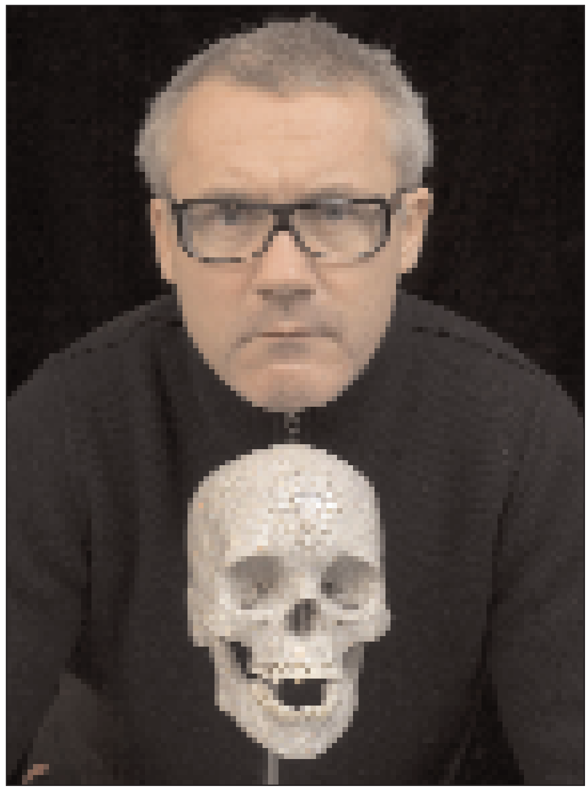
The asking price was £50 million. If it sold, it would be the highest price ever paid for an artwork by a living artist. For the Love of God is what Damien Hirst called his "masterpiece" – his hubris as evident as the idiocy of the market he was deriding.

One can but wonder: if Lehman Brothers had not filed for Chapter 11 bankruptcy protection in September 2008, would Hirst be laughing even louder today? But that is conjecture. The fact is, the financial bubble did burst. And when it did, the art bubble shattered into a million pieces as well. This was not the first time that an art bubble has burst, and it will not be the last time that one forms.

Soap bubbles. They are beautiful, magical. Unlike all else that falls "plonk" back to earth, a soap bubble stays suspended in the air, almost as if propelled by its own energy. It seems to defy one of the most fundamental laws of nature: that everything that goes up must come down. In an opalescent illusion hued in soft pinks and shades of grey, the luminescent bubble (while intact) distorts everything it reflects. Exquisite, intoxicating and incredibly fragile.

There can be no uncertainty about the origin of the terms "financial bubble" and "economic bubble". The analogy is almost banal. An economic bubble is created when people buy into an illusion in a bigger and bigger way. According to Wikipedia, an "economic bubble" is "trade in high volumes at prices that are considerably at variance with intrinsic value". One of the most succinct synonyms is "speculative mania". As to the term "art bubble", the moment the art market became a commodities market, it began to behave like any other part of the economy. Economic terms such as "bubble" became art industry jargon overnight.

Art has been bought and sold for millennia. But for most of that time, a work of art was commissioned or acquired directly from an artist or a salon in order to enhance (souls and) walls for a lifetime and thereafter to be left to heirs or museums. Only as a last resort was it sold at auction. The true commercialisation of art is a fairly recent development. In London, for instance, it started during the middle of the 19th century, when the first commercial art galleries opened their doors in the St James's area. The owners of these establishments exhibited and promoted (for a commission of 20 percent) the works of living artists; other gallery owners realised the potential of buying art (that is, stocking up on it) and selling it at a profit – the works of the Old Masters were at that time the most obvious and popular choice for such a financial endeavour.



REUTERS

**British artist Damien Hirst poses with his artwork *For the Love of God*, a diamond-encrusted platinum skull, which went on display at the White Cube gallery in London in June 2007.**

With the advent of the commercial art >>

>> gallery, a new category of buyer entered the world of art – people who bought art with the express purpose of selling it at a profit. The art world became an art market and the art entrepreneur its main protagonist.

Then, in 1904 a group calling their venture La Peau de l'Ours convinced investors to contribute to a central art fund and used that money to buy art. The stock was kept as an asset to be realised at a predetermined time in the future. Art had become a commodity suitable for speculative behaviour.

In a prophetic lecture at New York's Museum of Modern Art in 1968, eminent art historian Leo Steinberg lamented: "Art is not, after all, what we thought it was; in the broadest sense it is hard cash. [...] Another decade and we shall have mutual funds based on securities in the form of pictures held in bank vaults." The creation of the British Rail Pension Fund's Art Fund in the mid-1970s saw Steinberg's prediction come true.

The perceived success of these institutional investors (highlighted by increasing media coverage of awe-inspiring prices achieved over and over again) created an artificial trust in art as a commodity. It instilled enough confidence to lure another group of investors: the non-art-professional individual. These people were attracted to art for its speculative potential. The social cachet that participation ensured was for many nothing but a fabulous bonus.

## That giant popping sound

IN 1970, TANDEM BOOKS PUBLISHED *BUYING ART on a Budget* ("budget" suggesting that this market was accessible to everyone). On the back cover, author Joanna Eagle confidently advised her readers to "invest in art for the future. It is virtually inflation-proof, and the overall value of certain pieces has increased 2 400 percent since 1951 – compared to the fourfold increase of stock market prices."

But as Eileen Chanin claimed in her book *Collecting Art: Masterpieces, Markets and Money* written 20 years later: "'Art is a good investment' usually means 'some works of art have been a very profitable speculation'." By 1990, Chanin's cynicism and subtle cautioning were based on a hard financial reality: the first art bubble had burst and it had left a devastating trail.

Between 1986 and 1991, Japan experienced an enormous financial boom. And as art was already firmly entrenched as a market commodity, many Japanese billionaires started investing money in Impressionist and Post-Impressionist art.

At the peak of the Japanese art craze, Ryoei Saito, the chairman of Daishowa Paper Manufacturing, paid US$82.5 million for Van Gogh's *Portrait of Dr Gachet* and more than US$78 million for Renoir's *Le Moulin de la Galette*.

But then Tokyo's various asset bubbles started to burst ... the illusion was shattered and art prices plummeted. The international art market, touted to be indestructible, was as precarious as all other markets, it turned out.

Less than two decades later, the second art bubble burst. This time the bubble was in Contemporary art – a market driven by a juvenile dotcom generation convinced that the opinion of a small group of "experts" and access to information (online art indices) were sufficient to navigate this (everything but transparent) market. In a frank and riveting documentary called *The Great Contemporary Art Bubble*, Ben Lewis explored the conditions that led to the value of Contemporary art rising by 800 percent between 2003 and 2008.

Of course it could not last. And yet as one bubble burst, new ones were already starting to form. The prices paid for Chinese art and artifacts are fantastical, fanatical. A burst is imminent, art watchers are warning. But what the hell – in the meantime there are billions to be made.

## A record price too far?

AND WHAT OF OUR OWN ART MARKET? SINCE 2008 we have seen enormous growth in the prices of the so-called South African masters, with Irma Stern and Pierneef leading the way. The growth was rapid, even astronomical, with new records set each time one of the three major auction houses held an auction. The media loved the "new record price" fodder it was fed regularly.

At first everyone celebrated the fact that, at last, South African art was coming into its own. But then it started to look as if the growth was too rapid. It suddenly seemed as if too many pieces were coming onto the market and that the ever-increasing estimates were leaving even the wealthiest "just looking". Perhaps, in the end, there was just one record price too many.

In February this year the permeating sense of unease became a market reality when Stern's *Zulu Woman*, a blue-chip investment if ever there was one, failed to sell on auction. At R16 million to R20 million, the estimate was extremely bullish and the result not entirely unforeseen. But then it happened again. Two weeks later, another auctioneer failed to secure successful bids for a number of blue-chip pieces on offer. Shock and horror! Could this happen? Well, it keeps happening. In May, the five top lots (three Sterns and two Pierneefs) failed to find buyers on the night of the auction.

"It was bound to happen; it's nothing but a gentle correction," says an industry trying to soothe a nervous market. Correction or crash? Only time will tell.

In my next column, I will look at some facts and figures to try to make sense of what is going on in our beloved South African art market. And, oh yes, I will tell you what happened to Hirst's fabled head.

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