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Art and Recession

By Wolfgang Schlink

“**Art** Imitates Crunch, With Few Exceptions” proclaimed an early January 2009 headline of *The Wall Street Journal*. Art moves largely in lockstep with the global economic turmoil. Artists, galleries, auction houses, museums, schools, philanthropists, and collectors are adjusting to a changing world.

2008 - Records, rejects, Russians

For Sotheby’s, November 14, 2008 was a rare good day in recent months. The auctioneer was basking in superlatives, like “a new level” for African and Oceanic Art, “continued enthusiasm of collectors even amid challenging economic times”, and “many world records achieved”. The sensational \$4 million sale of a pair of Senufo ancestor figures, originally in the collection of Nelson A. Rockefeller, was the highlight of the evening. Moreover, the New York auction of the Rosenthal Collection was one of the few bright spots in the fall auction scene; so praise was warranted. But, to put things in perspective, tribal art accounts for just a small fraction of total art auction sales where Impressionist, modern, and contemporary art dominate.

Prices for art - especially of the contemporary and modern genre - had skyrocketed in the past few years driven by the irrational exuberance of wealthy collectors. Within weeks of a waning 2008 the overheated market dropped to a more earthly level. For some segments of the art world this did not make for a soft landing. Contemporary Asian art from China and India - so hot for a few years - fell prey to overhyped estimates at the October/November Hong Kong auctions. By the beginning of the fourth quarter Sotheby’s contemporary art experts still took solace in the record results of their Damien Hirst September formaldehyde-drenched auction *[image right]*. The direct sale - a bypass of Hirst’s gallerists - marked a peak of the contemporary art market. In hindsight, it was not a trendsetter, but rather an aberration combined with lucky timing. The Hirst auction took place on September 15, the day Lehman Brothers collapsed.



By December 2008, Christie’s indicated price cuts of 10% or more; an optimistic view as the New York November auctions had seen downward adjustments of more than 30% and a disproportionate share of unsold consignments. Cash rich buyers took advantage of what could only be described as twofer sales. In less than 90 minutes at Sotheby’s New York, Los Angeles financier Eli Broad reportedly plunked down \$8 million for a Ruscha, a Judd, a Koons, and a Rauschenberg, all well below their low estimates.



The tea leaves of the fall 2008 auctions for late 19th and 20th century art do not make for a simple reading. The heap of bought-in lots increased. Works by Warhol, Lichtenstein, Marden, Hirst, and Koons were among the rejects while records were still broken. Some of the highlights: Edvard Munch's 1894 "Vampire (Love and Pain)" changed hands for more than \$38 million [image right]. Kazimir Malevich's 1916 "Suprematist Composition", recently wrested by the painter's heirs from Amsterdam's Stedelijk Museum, set a high mark for Russian art at \$60 million.



Earlier, in May 2008, Russian billionaire Roman Abramovich had snapped up Francis Bacon's 1976 "Triptych", at \$86.3 million the fourth most expensive painting ever sold at auction [image below]. Only 48 hours later he added Lucian Freud's 1995 painting "Benefits Supervisor Sleeping" from the artist's "fat period" to his collection. At \$33.6 million it was a record result for a living artist. The two purchases - an interesting comparison - came close to matching the entire 2007 budget of America's National Endowment for the Arts (NEA).

It is not entirely clear what drives the art collecting ambition of several Russian oligarchs and intensely private Mr. Abramovich in particular. He is known as a trophy hunter who owns FC Chelsea (the English Premier League soccer club) and several luxury yachts including the world's largest with its own missile defense system (still under construction). His muse seems to be girlfriend Dasha Zukhova, herself a rookie in the art collecting world. Yet, the 27 year old Russian 'It Girl' has the drive to make things happen. With the assistance of first-class professionals and her boyfriend's deep pockets she orchestrated the conversion of the Bakhmetevsky Bus Garage, a Moscow architectural landmark from the 1920s, into a center for contemporary culture. For the June 2008 "soft" opening of her *Garage* art space, movers and shakers of the international art scene scrambled for invitations. Among the 300 lucky attendees were the likes of Ronald



Lauder (Neue Galerie, N.Y.C.), Larry Gagosian (has now his own Moscow gallery), collector Steven Cohen, and artist Jeff Koons. Singer Amy Winehouse flew in for the night and performed for a reported fee of \$2 million. Abramovich and Zhukova have far reaching plans. For 2010, they have

committed to a Francis Bacon retrospective that will open at the *Garage* and then travel to the Hermitage in St. Petersburg.

Some glorified comments seem to suggest that a new elite of Russian collectors is born, reminiscent of the tradition of Peter the Great, Catherine the Great, or Impressionist connoisseurs Ivan Morozov and Sergei Shchukin. It remains to be seen if the art shopping spree of Mr. Abramovich is more than just an expensive flash in the pan. Russia's precipitous economic downturn since May 2008 has clearly affected his fortune by the billions, although a spokesperson calls the bad news "merely paper losses".



The lessons from the capricious auction scene of 2008 indicate that even in a recession rare, good art of impeccable provenance keeps its value. Impressionist paintings did not lose their standing. In contrast, overvalued names and less than first-rate works have quickly created their own bear market.

Philanthropists rethink

“... mad Americans and sad Japanese slowly begin to discover they have been throwing away billions of pounds on the hideous rubbish which is still called ‘modern art’“, the London *Daily Telegraph* mocked the art slump of 1991(!). The assessment for late 2008 would sound only slightly different. Yet in November, Tobias Meyer, at Sotheby’s in charge of contemporary art worldwide, tried to put a positive spin on a dire situation by feeding the art world the euphemism: “... price disparity between good and great has widened to humongous”. And of course, the nationality of compulsive contemporary art buyers had changed over time. Now, the nouveaux riches from Russia, the Middle East, and Asia stayed away, and so did much of the recession-bitten Wall Street elite of collectors. A few members of the latter quickly turned from buyers to sellers to take advantage of a last fat chance - for a while - to replenish some of the lost family silver. America’s museums had courted affluent financiers, investment bankers, hedge-fund managers, and their wives for board memberships with the expectation of major art endowments. Philanthropy has to wait as museum patrons prioritized personal needs.

Kathy Fuld, a vice chairman of MoMA’s Board of Trustees and wife of Lehman Brothers ex-CEO Richard Fuld, consigned a set of 16 rare postwar works on paper (Willem de Kooning, Arshile Gorky, and others) to Christie’s for their November 12 auction, guaranteed by the auctioneers for \$20 million. The sale tallied just \$13 million leaving Christie’s holding the bag for the difference. You win some, and you lose some. According to *Bloomberg*, husband Richard Fuld unloaded his shares of insolvent Lehman in September for just \$500,000, a stash that had been worth a tidy \$247 million only some 18 months ago.

Jennifer Stockman, president of the Solomon R. Guggenheim Foundation, consigned several works of art to the same auction, among them a 1994 painting “Pine House (Rooms for Rent)” by Scottish-born artist Peter Doig. The work had stellar exhibition provenance from London’s Tate Britain where it had been part of an early 2008 show of the artist’s work. It also came with an estimate of \$4.5 to \$6.5 million and a generous guarantee by the auction house. Small change as Georgian mining magnate Boris Ivanishvili had shelled out \$11.3 million for Doig’s 1991 painting “White Canoe”, at the time (February 2007) the most expensive work by a living European artist. Yet, the no-sale of “Pine House” and the low sale of other pieces of the Stockman lot triggered the guarantee. The sheltered consignor was happy while Christie’s stockroom kept growing. “Talk about timing ... It was now or never ...” were Mrs. Stockman’s cheerful comments; words reminiscent of a commodity trader.



Marie-Josée and Henry Kravis - she the president of MoMA’s Board of Trustees, he the co-founder of private equity firm KKR - staged a successful sale of their c. 1879 Edgar Degas pastel on paper “Danseuse au Repos” [image right]. The painting was knocked down at a record \$37 million, breaking its own 1999



high mark of \$27.9 million. A successful 'flip' for the consignors with an added bonus as Sotheby's supposedly had guaranteed the sale at a generous \$40 million.

And, when everybody was getting ready for some good - albeit muted - holiday cheer, Bernard Madoff and his collapsed Ponzi scheme shocked the financial world. The deceitful investor made off with multi-billion dollars of direct and indirect clients. Philanthropists are disproportionately affected by the Madoff malaise as they have a tendency to put their charitable dollars into higher risk investments than let's say their retirement savings. For a few of them their art collections became over night their sole - not very liquid - assets. Unlucky timing as any forthcoming fire sales will face a soft art market.

Auctioneers restructure

The new economic reality forced auction houses to make changes. Sotheby's and Christie's, the top contemporary art auctioneers, and distant third Russian-owned Phillips de Pury had engaged in a cut-throat competition to win consignments. Many of the weapons used in this battle for prestige and market share have become - at least for now - tools of a foolish historic arsenal. Gone are the kickbacks of buyer's fees to the seller. Next, the questionable and loss making practice of luring sellers by giving them price guarantees has been abandoned. In this ultimate gamble to attract consignors, an auction house would commit itself to pay a fixed sum to a seller of a piece of art, regardless if it would be bought at auction or not. This promise was at times embellished by a profit-sharing agreement if a successful sale exceeded the guarantee. Cheyenne Westphal, Sotheby's European chairman of contemporary art, confidently declared: "We guarantee the works we believe in". That she stated in October 2008. Only weeks later it turned out the believers had significantly underestimated the precipitous slide of the art recession. Serious multi-millions of dollars - all three major contemporary art auctioneers were affected - were lost in their blown up (no pun intended) guarantees. By December, Sotheby's and Christie's reportedly had lost a combined 63 million to their overoptimistic pledges. Incidentally, the guarantee game had always been looked at with some skepticism as it could easily skew the impartiality of the auctioneer. Who wouldn't try to market a guaranteed pay-out harder in lieu of the uncertainty of selling or not selling a given lot?

Yet auction houses continue to play all sides of the sale. They seem to have maintained the "third party guarantee" (i.e. not their own, more likely a gallery's or a collector's pledge geared to see the prices for a particular artist increase). Fairly new in their toolbox is the "irrevocable bid" (i.e. a buyer's pre-sale guarantee). In addition, they are extending loans and pre-sale advances to sellers. And, who'd know about potential side deals to ingratiate themselves with consignors, like promised donations to the seller's favorite charity?

Sotheby's had expanded its brand from being just an expert art intermediary. Attempting to cater to other needs of their well-to-do clientele, they branched out into high end real estate brokering. Over time the auction house had slipped into the role of a financial institution for the wealthy, involved in lending, guaranteeing, rebating, and the (now terminated) credit card business. It did not make for a successful diversification. Sotheby's share price (NYSE ticker: BID) had dropped to \$ 8.89 by New Year's Eve, a nosedive of 77% from early 2008. Downsizing of staff, resulting in anticipated savings of \$7 million for 2009, was just one of the consequences.

Closely held Christie's - part of French holding company Artemis that owns the Gucci brand and Chateau Latour - announced their restructuring plan on January 12, 2009. Speculation had it that the



winery or even the auction house itself may be for sale. Not so fast; for now the vague announcement just speaks of “significant staff reductions”.

Museums retrench

The Art Newspaper of London recently conducted a financial survey of some 40 U.S. art museums. The polled institutions had reportedly lost on average more than 20% of their invested endowments in 2008. That may well be an understated figure. As a consequence, from the Guggenheim to the Getty, from MoMA to MOCA painful budget cuts are being put in place for 2009 and 2010 affecting staffing, programming, and operations. Hiring freezes, early retirement packages, postponement of building expansions and renovations, temporary closing of venues, and cut back on research and exhibitions are the orders of the day for America’s cultural institutions.

While their European counterparts are for the most part publicly funded, American museums rely heavily on private and corporate philanthropy. Sponsorship of art fairs, museum exhibitions and catalogs, has been an integral part of the business plan of many financial institutions. It was one way to attract high-end clients for their wealth management divisions. Active players, like Lehman Brothers or Merrill Lynch have collapsed or merged. Other art-supporting banks of significance, like Deutsche and UBS, have reported multi-billion losses. The corporate sponsorship dollar is becoming a rare currency in the global art and museum world.

Los Angeles’ MOCA, arguably the world’s most important contemporary art venue, was lucky. A victim not so much of the recession but of financial mismanagement, the museum had lived for years beyond its means. Magnate Eli Broad came to the rescue and has pledged a \$30 million lifeline for MOCA’s survival.

President Obama - WPA revisited?

The current economic crisis is a stark reminder of the time of the Great Depression; minus the dust storms and soup kitchens for now. Today’s economic pundits keep skillfully avoiding the dreaded D-word. “A deepening recession” was the balancing act of wordsmithing recently used by a senior advisor to the presidential runner up. The answer to the calamitous times of the 1930s was Franklin D. Roosevelt’s New Deal which included support for the arts. Programs like the Works Progress Administration (WPA) and others provided jobs creation and education. Artists who received government paychecks included Jackson Pollock, Mark Rothko, Arshile Gorky, and Thomas Hart Benton. Production of posters for public causes flourished, muralists beautified post offices and other public buildings. The depression presented photographers like Walker Evans and Dorothea Lange [*image right*], both on the federal payroll, with haunting motifs. It remains to be seen to what extent the Obama administration will include support for the arts in the eagerly anticipated stimulus package.



President Obama has publicly stated: “Our art, our culture, that’s the essence of what makes America special ...”. His campaign platform included an arts program, unusual for a presidential contender. One of the main ingredients of his cultural policy platform is the creation of an Artists Corps, a cadre of young art talent pressed into service for the benefit of America’s public schools. A welcome



thought at a time when state budget cuts force the Los Angeles Unified School District to freeze its Arts Community Partnership program, a valuable hands-on teaching program in many disciplines of the performing and visual arts. Clearly a shame, as it is a documented fact that test scores in low-income public schools which link art education across the curriculum improve faster than scores in schools lacking art programs. Establishing the Artists Corps would be a win-win situation for young artists and for students.



In a time of recession the cliché of the starving artist is likely to become a clear and present reality. Art is luxury that one can arguably live without. As an overspending nation focuses on reducing debt, the negative impact on art sales and the burgeoning gallery scene is inevitable. Yet there is a chance for the creative, innovative mind. One example is Los Angeles-based artist Shepard Fairey who by his own admission was “living on the poverty line” until 2001. He propelled his art to prominence by starting as a street artist pasting - not always terribly legal - his posters on buildings, walls, and bridges. Skill, timing, and using the potential of the Internet made his image of candidate Obama a ubiquitous icon. The National Portrait Gallery at the Smithsonian just acquired and unveiled the original.

Let the image be the maxim of art and recession: There is - HOPE.

Images:

Pg. 1- Damien Hirst, *The Golden Calf*, 2008

Pg. 2- Edvard Munch, *Vampire (Love and Pain)*, 1894; Francis Bacon, *Triptych*, 1976

Pg. 3- Edgar Degas, *Danseuse au Repos*, c. 1879

Pg. 5- Dorothea Lange, *Migrant Mother*, 1936

Pg. 6- Shepard Fairey, *Obama Hope*, 2008

Calendar

- **San Diego Museum of Art**, more at www.sdmart.org
 - **Oceanic Art**, January 31, 2009 – January 3, 2010
The exhibition features some 70 artworks that represent ancient traditions from Melanesia, Micronesia, and Polynesia. Included are artifacts from the collection of EAC members Edward and Mina Smith.
Note: EAC is planning a special program; members have received invitations.
 - **Black Womanhood: Images, Icons, and Ideologies of the African Body**, January 31 – April 26, 2009. An in-depth look into ideologies of black womanhood through photographs, paintings, sculpture, and installations.
- **The Getty Villa, Malibu**, more at www.getty.edu
 - **Reconstructing Identity: A Statue of a God from Dresden**, ongoing to June 1, 2009
 - **Fragment to Vase: Approach to Ceramic Restoration**, ongoing to June 1, 2009
Both exhibitions highlight the art of restoration. Tours available.
 - **Jim Dine: Poet Singing (The Flowering Sheets)**, closes February 9, 2009
Classic meets contemporary meets poetry at this installation.

