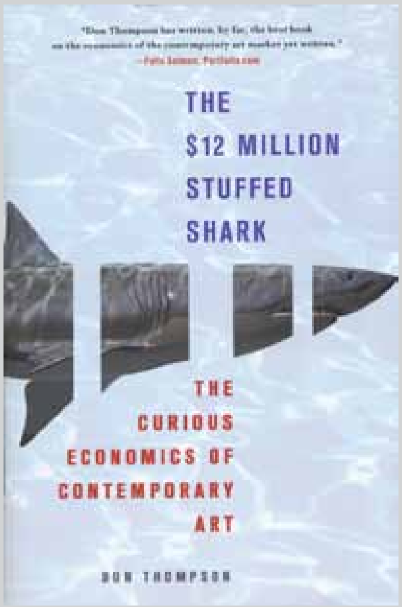

THE $12 MILLION STAFFED SHARK

Don Thompson

You don't want to read this book if you are a high-end art collector, as you don't want to know the tricks before watching an illusionist's show. But if you wish to understand the mechanisms that determine the economic value of contemporary art, and possibly of art in general, this is the bible – a must, for art dealers and gallerists.

Though, "The 12 Million Dollar Stuffed Shark" is not reviewed for this reason, or for a specific interest in ichthyologic art; we have recognized in this original and far-reaching work an important contribution to economics. In this discipline, money and market, or free market as it is wishfully called, are supposed to obey definite roles and rules on which well-meaning theories are built. Unfortunately, such theories are often conflicting, given the fact that the nature of money and markets is still the object of fierce academic debates. Understandably as to grasp the mysterious significance of money is not easy, considering that only a few years ago, in 2005, a tacky stuffed shark has been exchanged with 12 million dollars guaranteed by the US Treasury. But that such a huge amount can be freely transmuted into something as solid as a grandiose mansion, can pay the salary of a worker for 300 years or rather be traded for a worthless symbol of vanity should be a matter of consideration in any theory of value and money. Perhaps it should also be a reminder that money is nothing other than a credit towards society whose actual redemption is as fictitious as the rarity of the stuffed shark. That is why there is more to learn from this journey through contemporary art than from studying the imaginary world of "market equilibrium" and other classical tenets of economics.

Don Thompson, an economist who taught at the London School of Economics and Harvard, with an interest in art and its market, may not have had this larger scope in mind. However, his research on the economic adventure of Hirst's monster, from the shores of Australia to become prey of a larger fish – a hedge fund shark – appears to be an experimental demonstration of economics' delusion of being a science.
And Thompson's analysis is scientific just because it is confined to the observation of factual reality with no leniency for assumptions convenient for the conception of elegant theories. Only with such unbiased scrutiny of the market is it possible to realize that, in this domain, form and substance rarely coincide. What could be formally closer to a perfect market than a public art auction? And yet, nothing could be farther from the mainstream textbooks than the hectic evening auctions at Christie's or Sotheby's! Nothing could be farther from the allocation of scarce resources, or a labour theory of value, than the price formation at a branded auction or gallery. And if price formation in the contemporary art market is definitely extreme, it easy to recognize in that process the same principles that shape the economy and challenge the ideal graphics and formulas that mould the minds of university students.

Branding is pervasive in our society, not limited to art and big names. It afflicts everybody's life in subtle ways, from the insignificant purchase to the big investment. It is there, when we visit a drugstore, a boutique, a car dealer or a real estate agent. Thus, in these pages, art trading becomes an allegory to expose those real-world market laws that economics finds so difficult to master. It is in this sense that Thompson's book can be considered an economics textbook as much as an insightful research on the market of contemporary art. Psychology, gullibility, egos, visibility, trends, branding, unrestrained profit, speculation, gambling, deception no less than creativity, organization, skill, hard work and financial acumen are all gracefully exposed in the book. And they are the key elements of the live economics that run the world and that any concrete economics theory should take into account. Cleverly concealed, and mostly overlooked in the haste and chaos of daily survival, these factors are definitely easier to unveil and recognize in the emotional amplification produced by the hype of outrageous prices and glamorous financial barons. Such is the contribution of Don Thompson to the understanding of economics, as much for the benefit of the layman as the economist.

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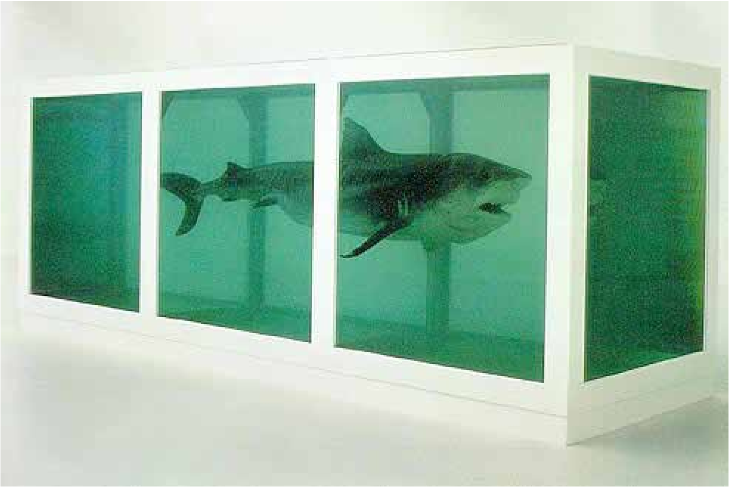


Damien Hirst
The Physical Impossibility of Death in the Mind of Someone Living
213.4 x 640.1 x 213.4 cm. - 1991

NEW YORK - JANUARY 13, 2005

one problem for the agent trying to sell the stuffed shark was the $12 million asking price for this work of contemporary art. Another was that it weighed just over two tons, and was not going to be easy to carry home. The taxidermy fifteen-foot tiger shark "sculpture" was mounted in a giant glass vitrine and creatively named The Physical Impossibility of Death in the Mind of Someone Living. The shark had been caught in 1991 in Australia, and prepared and mounted in England by technicians working under the direction of British artist Damien Hirst.

Another concern was that while the shark was certainly a novel artistic concept, many in the art world were uncertain whether it qualified as art. The question was important because $12 million represented more money than had ever been paid for a work by a living artist, other than Jasper Johns – more than for a Gerhard Richter, a Robert Rauschenberg, or a Lucian Freud.

Why would anyone even consider paying this much money for the shark? Part of the answer is that in the world of contemporary art, branding can substitute for critical judgment, and lots of branding was involved here. The seller was Charles Saatchi, an advertising magnate and famous art collector, who fourteen years earlier had commissioned Hirst to produce the work for £50,000. At the time that sum was considered so ridiculous that The Sun heralded the transaction with the headline "50,000 For Fish Without Chips." Hirst intended the figure to be an "outrageous" price, set as much for the publicity it would attract as for the monetary return.

The agent selling the shark was New York-based Larry Gagosian, the world's most famous art dealer. One buyer known to be actively pursuing the shark was Sir Nicholas Serota, director of London's Tate Modern museum, who had a very constrained budget to work with. Four collectors with much greater financial means had shown moderate interest. The most promising was American Steve Cohen. Hirst, Saatchi, Gagosian, Tate, Serota, and Cohen represented more art world branding than is almost ever found in one place. Saatchi's ownership and display of the shark had become a symbol for newspaper writers of the shock art being produced by the group known as the Young British Artists, the YBAs. Put the branding and the publicity together and the shark must be art, and the price must not be unreasonable.

There was another concern, serious enough that with any other purchase it might have deterred buyers. The shark had deteriorated dramatically since it was first unveiled at Saatchi's private gallery in London in 1992. Damien Hirst had not actually caught the now-decaying shark. Instead he made "Shark Wanted" telephone calls to post offices on the Australian coast, which put up posters giving his London number. He paid £6,000 for the shark: £4,000 to catch it and £2,000 to pack it in ice and ship it to London. There was the question of whether Hirst could replace this rotting shark simply by purchasing and stuffing a new one. Many art historians would argue that if refurbished or replaced, the shark became a different artwork. If you overpainted a Renoir, it would not be the same work. But if the shark was a conceptual piece, would catching an equally fierce shark and replacing the original using the same name be acceptable? Dealer Larry Gagosian drew a weak analogy to American installation artist Dan Flavin, who works with fluorescent light tubes. If a tube on a Flavin sculpture burns out, you replace it. Charles Saatchi, when asked if refurbishing the shark would rob it of its meaning as art, responded "Completely." So what is more important – the original artwork or the artist's intention?

Nicolas Serota offered Gagosian $2 million on behalf of Tate Modern, but it was turned down. Gagosian continued his sales calls. When alerted that Saatchi intended to sell soon, Cohen agreed to buy.

But who is Steve Cohen? Who pays $12 million for a decaying shark? Cohen, a very rich Connecticut hedge fund executive, is an example of the financial-sector buyer who drives the market in high-end contemporary art. He is the owner of SAC and is considered a genius[1].

To put the $12 million price tag in context it is necessary to understand how rich really rich is. Assume Mr. Cohen has a net worth of $4 billion to go with an annual income of $500 million before tax. At a 10 percent rate of return –far less than he actually earns on the assets he manages – his total income is just over $16 million a week, or $90,000 an hour. The shark cost him five days' income and the sale greatly increased the value of the other Hirst work in the Saatchi collection.

Cohen was not sure what to do with the shark; it remained stored in England. He said he might donate it to the Museum of Modern Art (MoMA) in New York – which might have led to his being offered a position on the MoMA board.

BRANDING AND INSECURITY

The first great insight from my art world meetings came from Howard Rutkowski, formerly a specialist at Sotheby's, now a director of Bonhams auctioneers in London. "Never underestimate how insecure buyers are about contemporary art, and how much they always need reassurance." This is a truth that everyone in the art trade seems to understand, but no one talks about. So, very often, the way the purchase decision for contemporary art is made is not just about art, but about minimizing that insecurity.

The insecurity is understandable; it is a world where even the most basic

1- Twill editorial note, fb.
February 8, 2011, 11:14 pm - NYTimes - Federal prosecutors on Tuesday announced charges against three hedge fund managers, depicting a "triangle of trust" in which the three shared tipsters and illegally pooled confidential information about publicly traded technology companies. The complaint also details a brazen cover-up that involved destroying computer hard drives with pliers and tossing them into random Manhattan garbage trucks in the dead of night. Two of the managers charged, Noah Freeman and Donald Longueuil, were accused of insider trading while employed at SAC, hedge fund run by the billionaire Steven A. Cohen. The two join several other former SAC employees who have been ensnared by the government's investigation. Neither SAC nor anyone now at the fund has been accused of wrongdoing, and it is cooperating with the investigation.

concepts can be slippery. Whenever I discussed the idea of this book, one of the first questions was always, "Tell me what defines contemporary art." There are really two questions there; what is contemporary, and what is art. The first question is much simpler, but even that lacks general agreement.

My working definition is that contemporary art is non-traditional and was created after 1970, or that a major auction house has offered it or a similar work by the same artist as "contemporary."
I only discuss two-dimensional works on canvas or paper, and sculpture. Even saying that much contemporary art is two-dimensional work called painting is not straightforward. Painting should be easy to define; it is the product of paint-like materials being applied to a flat surface. But what about a painting produced as a video, or a painting that is a collage, a cartoon, or graffiti? Cy Twombly has done a painting with a pencil; Andy Warhol has done paintings with urine, Robert Rauschenberg with dirt, and Chris Ofili with elephant dung.

Christopher Wool's letter paintings contain a word; in the case of one auctioned at Christie's, New York in November 2005 for $1.24 million, the fifteen stenciled alkyd and enamel letters on aluminum spelled Rundogrundogrun.
Collectors' insecurities are reinforced by the way that contemporary art is described. Art professionals talk about Impressionist art in terms of boldness, depth, use of light, transparency, and color. Since art collectors cannot always fathom the value code, they understandably do not trust their own judgment. Their recourse is often to rely on branding. Collectors patronize branded dealers, bid at branded auction houses, visit branded art fairs, and seek out branded artists. You are nobody in contemporary art until you have been branded.

Christopher Wool
Untitled W17 (Rundogrundogrun)
274 x 183 cm. - 1990.

Branding adds personality, distinctiveness, and value to a product or service. It also offers risk avoidance and trust. A Mercedes car offers the reassurance of prestige. Prada offers the reassurance of elegant contemporary fashion. Branded art operates the same way. Friends may go bug-eyed when you say "I paid five point six million dollars for that ceramic statue." No one is dismissive when you say "I bought this at Sotheby's", or "I found this at Gagosian", or "This is my new Jeff Koons". Branding is the end result of the experiences a company creates with its customers and the media over a long period of time – and of the clever marketing and public relations that go into creating and reinforcing those experiences.

The high return made on successful brands exists in all creative industries. As this book was being researched, two of the highest-grossing movies were Dan Brown's The Da Vinci Code, and Mission: Impossible III. What those movies had in common were reviews that ridiculed both story lines and the actors Tom Hanks and Tom Cruise. The reason moviegoers ignored these reviews was the involvement in each movie of at least one brand name: Brown, Hanks, da Vinci, Cruise, Mission: Impossible. All are brands that audiences respond to.

In contemporary art, the greatest value-adding component comes from the branded auction houses, Christie's and Sotheby's. They connote status, quality, and celebrity bidders with impressive wealth. Their branded identities distinguish these auction houses, and the art they sell, from their competitors. What do you hope to acquire when you bid at a prestigious evening auction at Sotheby's? A bundle of things: a painting of course, but hopefully also a new dimension to how people see you. As Robert Lacey described it in his book about Sotheby's, you are bidding for class, for a validation of your taste.
The Museum of Modern Art, the Guggenheim, and the Tate are museum brands. These have very different status from museums in Portsmouth or Cincinnati. When MoMA displays an artist's work, it conveys a shared branding, adding to the work of the artist a luster that the art world calls provenance. The MoMA brand offers buyer reassurance. A work of art that was once shown at MoMA, or was part of the MoMA collection, commands a higher price because of its provenance.
Contemporary art dealerships like Gagosian or Jay Jopling's White Cube in London are respected brands, which differentiate their art and artists from hundreds of other galleries, as Da Vinci or Mission: Impossible are differentiated from other movies. A few collectors, such as Charles Saatchi, and artists such as Damien Hirst, Jeff Koons, and Andy Warhol have also achieved the status of recognized and respected brands.

The motivation that drives the consumer to bid at a branded auction house, or to purchase from a branded dealer, or to prefer art that has been certified by having a show at a branded museum, is the same motivation that drives the purchase of other luxury consumer goods. Women purchase a Louis Vuitton handbag for all the things it may say about them. The handbag is easily recognized by others, distinguished by its brown color, gold leather trim, and snowflake design. A woman uncertain as to whether her friends will recognize this symbolism can choose a bag with "Louis Vuitton" spelled out in block capital letters. The same message is delivered by a Warhol silkscreen on the wall or a Brancusi sculpture in the entrance hall.

Art world practices change when a branded player is involved. The price a dealer charges for work by a new artist is based on the reputation of the gallery and the size of the work rather than any measure of its quality. No artist is actually ever referred to as new; they are called "emerging," which describes where the artist is coming from, not where she is going. Emerging is an art world term that means unknown, and in a relative sense, not expensive.

An emerging artist's work that sells for £4000 at one gallery might be offered at £12,000 at a branded gallery. Strange as it may seem, it is the dealer branding, and substitution of the dealer's choice and judgment for the collector's, that add value. The dealer brand often becomes a substitute for, and certainly is a reinforcement of, aesthetic judgment.
When an artist becomes branded, the market tends to accept as legitimate whatever the artist submits. Consider the attraction of a work

by Japanese conceptual artist On Kawara, whose Today series involves painting a date on canvas. Thus the work Nov. 8, 1989 (just those letters and numerals, in block white against a black background), in liquitex on canvas, 26 x 36 in (66 x 91 cm), sold for £310,000 in February 2006 at Christie's auction house in London. Kawara paints freehand, and limits himself to the hours of one day to complete a work. A painting unfinished by midnight is discarded as it would no longer be a day painting. The paintings are all made on Sundays. If Kawara is in the United States, the date begins with the name of the month in English, followed by the day and year. If he is painting in Europe, the day precedes the month. If he is in a country that does not use Roman script, he writes the month in Esperanto. Each sale includes the front page of a newspaper from that date. Christie's catalogue described the Kawara work as "an existential statement, a proof of life."
There is no rarity factor; Kawara has been making these paintings since 1966.

There are two thousand Kawara day paintings in existence. But Kawara is a brand, and his branding stands as a beacon for every contemporary dealer and every aspiring conceptual artist. One dealer told me that so long as collectors will pay high auction prices for Kawara's day paintings, there is hope for everyone.

A work offered in a prestigious evening auction at Christie's or Sotheby's will bring on average 20 percent more than the same work auctioned the following day in a less prestigious day sale. It is "Evening Sale" that adds value. Branding of the artist is also important, in that a branded artist such as Jeff Koons seems able to sell almost anything, and his collectors can have almost any work accepted for resale at an evening auction.
Money itself has little meaning in the upper echelons of the art world – everyone has it. What impresses is ownership of a rare and treasured work such as Jasper Johns' 1958 White Flag. The person who owns it (currently Michael Ovitz in Los Angeles) is above the art crowd, untouchable. What the rich seem to want to acquire is what economists call positional goods; things that prove to the rest of the world that they really are rich.
Even if you are only moderately rich, there is almost nothing you can buy for £ 1 million that will generate as much status and recognition as a branded work of contemporary art – at that price maybe a medium-sized Hirst work. Flaunting a Lamborghini might be viewed as vulgar. A country house in the south of France is better, but it had better have a small vineyard and a sea view. A great many people can afford a small yacht. But art distinguishes you. A large and recognizable Damien Hirst dot painting on the living room wall produces: "Wow, isn't that a Hirst?"
New York and London are the two nerve centers of the world market for high end contemporary art – and they are where branding is most evident and most important. New York is more important than London for most categories of art, but in contemporary art, London has been gaining for a decade and deserves to be considered as equal. The most important artists work in or around these centers, or visit frequently. Which is the third most important art market by value? It is not Paris, but rather Beijing. If you just count auction results for contemporary art, it is Hong Kong.

New York and London are themselves brands. Having a painting on your wall acquired in New York has a lot more cachet than having one purchased in Milwaukee.

Jeff Koons
Pink Panther
104 x 52 x 48 cm. - 1988.

BRANDED DEALERS

New York's Marian Goodman calls herself a gallerist and explains, "I've never been a dealer. A gallerist represents artists, and a dealer represents a work". Others, like Harry Blain, say, "Of course I'm a dealer, what else would I call myself"?
Gagosian achieved his current status in contemporary and modern art through determination and audacity. He began his career as a poster and print dealer in the Westwood Village area of Los Angeles, and opened his first New York gallery with Annina Nosei in 1979 – in a first floor location across the street from Leo Castelli. He gave American contemporary artist David Salle his first show. He opened his own gallery in 1985, in a West 23rd Street building owned by artist Sandro Chia. His first show there involved work he had secured for resale from the famed American contemporary art collectors Burton and Emily Tremaine.

Gagosian obtained the Tremaines' number from directory inquiries in Connecticut, called, and made an offer for a painting by Brice Marden—essentially asking Emily Tremaine to bypass her dealer, Leo Castelli. He was turned down, but kept calling Mrs. Tremaine, making her feel important – which he said Castelli had not done. She decided she liked him, and let Gagosian have the Marden and two other paintings. His first major client was S. I. Newhouse, owner of Condé Nast, to whom he sold Piet Mondrian's Victory Boogie Woogie for $10 million. He then convinced Newhouse to attend auctions – which he had rarely done before – and to bid publicly through Gagosian. The art world was impressed, and other clients followed.

Gagosian deals in both primary and secondary markets. The primary art market is art directly from the artist, offered for sale for the first time. The secondary market is resale: buying, selling, and trading among collectors, dealers, and museums. Where does he make the most money? On paper, from secondary art, because there are few overhead or staff costs involved in reselling. What does he prefer? Most dealers prefer the secondary market, because it comes without any need to reassure and appease insecure artists. But it is not quite that simple, because one of the inducements offered to consignors and secondary market collectors is the opportunity to purchase oversubscribed work from primary artists. Selling work from those primary artists produces many of the collector contacts that result in secondary market sales.

Gagosian has an A-list roster of clients that includes Newhouse, Geffen, and Saatchi. He represents a long list of branded artists: in the United States Richard Serra, Chris Burden, Jeff Koons, Ed Ruscha, Mike Kelley, and the estates of Andy Warhol, Roy Lichtenstein, and Willem de Kooning. He also represents British artists Rachel Whiteread, Jenny Saville, and, for the U.S. market, Damien Hirst.

Damien Hirst
Detail of Lullaby Winter
198 x 274 x 10 cm. - 2002.

Gagosian manages more gallery space than any other dealer in the world. He has two galleries in New York, one in Beverly Hills, two in London, and one just off the via Veneto in Rome. Three of these were designed by famous architects. In 2008 Gagosian will open a gallery in China. His move to London confirmed that city's status as the center of Europe's contemporary art market. When Gagosian chose to participate in the prestigious Maastricht art fair for the first time in 2006, it was seen as confirmation that the fair had become the most important in the world.

ART AND MONEY

Money complicates everything in contemporary art, and affects every observer. It is impossible to look at a work in an auction preview without glancing at the estimate, and having that influence how the work is interpreted. Only a few people seriously ask why a leather jacket tossed in the corner of the auction gallery is being sold as art; it must be art if it appears at a Sotheby's evening auction, or if the auction estimate for the jacket equals the value of an average suburban house, or ten cars.

When, after a long bidding battle, the auctioneer hammered down Mark Rothko's painting White Center (Yellow, Pink and Lavender on Rose) at $71.7 million, there was sustained audience applause. What was being celebrated? The buyer's oil wealth? The triumph of his ego? His aesthetic taste? A new record price, sometimes well above that asked for a similar work earlier that day by the gallery down the street? When the auction hammer falls, price becomes equated with value, and this is written into art history.

Collectors walking through a museum are likely to discuss the art in terms like: "This work is worth five million; that over there is worth ten". Seeing Damien Hirst's diamond-encrusted skull, For The Love of God, at White Cube and knowing it is priced at $50 million creates a huge wow factor—and the price is how you report the sculpture to friends.

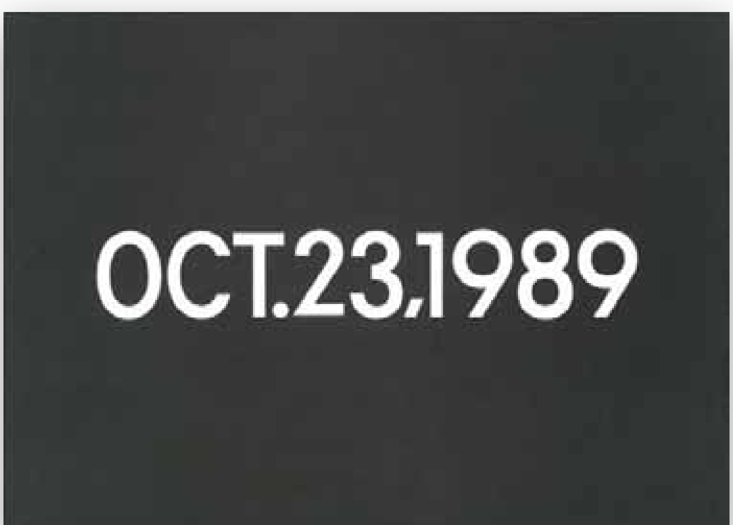
Or a collector enters a friend's home, views with disbelief a Warhol torn-label Campbell's soup can silkscreen on the wall and thinks, not "You have cutting-edge taste," but "You have a lot of money." It is easier to appreciate art when what is required is not an understanding of art history, just your memory of a recent article about high auction prices.

Art critics and curators also follow the dictates of art prices. Expensive work becomes meaningful in part because it is expensive. Critics write essays interpreting the work of Jeff Koons or Tracey Emin—and many articles about Damien Hirst—but never admit that the reason the work has meaning is because so much money has been paid for it. Crowds line up to see Portrait of Adele Bloch-Bauer I, and Hirst's sculptures, in part because of what they cost. The history of contemporary art would be different if there were no reported auction results, and no record of a Klimt selling for $135 million or Hirst's Lullaby Spring for £9.7 million.
Artists have held negative views of the relationship between art and money since the mid-eighteenth century, when the aristocracy and monarchy ceased to be the main sources of art patronage. Artists today resent the market economy and the degree to which art works are acquired not just on merit, but because art has become an expression of status. Unfortunately for artists' concerns, the contemporary art world must have an inflow of money from somewhere. Unless government becomes the sole purchaser of art, it is dealers, collectors, and speculators who must come up with the cash. Artists have to accept art choices driven by status or investment, with the importance of a work of art often based on the size of the collector's bank account.
Does a market economy discourage artistic diversity? This does not appear to happen with books or music. Any stroll through a music or book superstore reveals products created to satisfy hundreds of niche tastes in music and literature.
If the market economy does not always succeed in rewarding merit, should the government fill the gap by subsidizing artists? Those who have studied the economics of culture agree it should, because the arts offer economic externalities – benefits that accrue to the public at large, not just to people who own art. Art museums attract tourists, and help produce desirable cities that attract investment. But then who should be paid, and for what?

Both economists and members of the public suggest that subsidies are reasonable at two points in an artist's career: at the beginning, in the form of tuition grants, scholarships, and one-time grants to new artists; and later, when the artist is producing mature work, as prizes or commissions for public art. Most artists have a dramatically different view, that occasional subsidies are inadequate, and that there must be grants and subsidies all through their careers – irrespective of whether the market accepts or respects their work. They claim the market will always under-reward contemporary art because buyers are not sophisticated enough to understand it. The extreme position is that government should offer a living-wage stipend to all who say they want to create art, a guaranteed annual income that rewards effort rather than output.

A guaranteed income has actually been tried. For many years the Dutch government subsidized artists by purchasing their work. The price paid reflected both the amount asked by the artist, and the amount thought necessary to provide a living wage. Many artists sold only to the government, never on the open market. Those who sold on both markets received about three times as much for a work sold to the government. The scheme ended in 1987, and led to prolonged disputes between artists and their dealers over pricing. After all the subsidies, can you name a single contemporary Dutch artist from the 1980s? The only name that may come to mind is Marlene Dumas. She does not count; she moved to the Netherlands from South Africa, and was never part of the subsidy system.

If there are to be grants, who chooses the recipients? The public? But most people's taste in art is, as artists claim, undeveloped. An elected elite? Do politicians have any better taste in art than the general public? Art administrators? They are seen as having a vested interest in the art they supported in the past. Art critics, art historians, gallery owners, and prominent collectors? All are suspected of having a bias toward the traditional, because their area of competence would be diminished if a new art form were to evolve.



On Kawara
Oct.23,1989 Monday, 1989
66 x 91 cm. - 1989

END GAME

Two questions puzzled me as I began this journey in the world of contemporary art. Who determines what makes the work of a particular artist sought after? And by what alchemy is a shark sculpture or a contemporary painting worth $12 million or $140 million, rather than $250,000? Why is an easily reproduced stuffed shark, produced by technicians, seen as a good investment by a really smart and experienced collector? A third question arose as I talked to dealers and auction specialists: Where are the contemporary art market and its runaway prices going?

The first question turns out to have a straightforward answer, the second a more complex one. The answer to the third is still open, although all trends are unfavorable to dealers.

First, how does a hot artist obtain that distinction? A sought-after artist is one who has already passed several gatekeepers. The artist has been accepted and shown by a mainstream dealer, and usually moved to representation by a superstar dealer. The artist's work has been cleverly marketed, placed in branded collections and with branded art museums. The work has appeared in evening auctions at Christie's or Sotheby's. It is this process, not aesthetic judgment and certainly not critical acclaim, that defines the hot artist. Damien Hirst obtained his distinction rather differently: first the shock work, the shark, then the branded collector, Charles Saatchi. Then came the branded dealers, White Cube e and Gagosian, then the museum show with Saatchi, then the evening auctions.

How does an artist other than Hirst get past these gatekeepers? Most often with work that is big on creativity, innovation, or shock value, rather than through traditional skill in draftmanship or use of color. The first stuffed shark attracted more attention and much more money than the thousandth great color field painting. Marc Quinn's cast of his own head made from his frozen blood, or Marcus Harvey's portrait of child murderer Myra Hindley made with tiny images of a child's hands, attracted more publicity than more conventional art.

How does a work then come to be worth $12 million, or $140 million? This has more to do with the way the contemporary art market has become a competitive high-stakes game, fuelled by great amounts of money and ego. The value of art often has more to do with artist, dealer, or auction-house branding, and with collector ego, than it does with art. The value of one work of art compared to another is in no way related to the time or skill that went into producing it, or even whether anyone else considers it to be great art. The market is driven by high-status auctions and art fairs that become events in their own right, entertainment and public display for the ultra-rich.

The value of contemporary art also reflects the reality that art history can be rewritten by a buyer wielding a heavy wallet. If a buyer pays $140 million for a Jackson Pollock, the work is by definition a masterpiece and the artist belongs on the wall of every status-seeking collector. The next major Jackson Pollock is more desirable if priced at $ 141 million than at $125 million, because its new museum or private owner acquires bragging rights.

Art prices are propelled by what is known in economics as a ratchet effect. A ratchet turns in only one direction, and then locks in place. A price ratchet means that prices are sticky in a downward direction but free to move up. In an auction, a form of ratchet is at work when the first five items sell for double their estimate. The higher-quality items that follow must be worth more, because these lesser works sold for so much more than their estimates. The ratchet also works for the most expensive lots. If the record price for a Mark Rothko has always been twice that for the best Klimt, and a Klimt suddenly sells for more than any Rothko, how much will be paid for the next great Rothko? The answer may be $73 million – the three-times the previous auction record achieved at Sotheby's in May 2007.

Prices for an individual artist never ratchet down. A Klimt at auction will never sell for much less than comparable Klimts. If there are no bidders at the reserve asked, the auctioneer will "chandelier-bid" the work to the reserve and pass the lot, or it will go to the guarantor. Work by an artist who consistently fails to meet his reserve is no longer accepted for consignment. Ed Ruscha, whose work was in great demand during the 1980s, almost disappeared from major auctions ill the 1990s – and disappeared from art price indices. Price collapses aren't recorded in any price indices.

If the ratchet, perceived scarcity, and too much money consistently push prices up, is the entire contemporary art market just a bubble, a form of Dutch tulip craze? Art dealers and auction specialists never use the word "crash," and hate the word "bubble".

There are several good reasons why the contemporary market may not suffer a really disastrous crash. Both economic and artistic trends are favorable. The number of wealthy collectors is probably twenty times larger today than it was before the 1990 crash.
The present market reflects both the buoyancy of the financial markets and the concentration of income that has occurred all around the world in the past twenty years. In the United Kingdom and the United States, the share of income held by the top I percent of the population has doubled since the start of the 1980s. In Italy and France, where the collection of tax from the very rich is more a concept than a practice, the income share of the top 1 percent has tripled. In Russia, China and India, the share maybe fifty times higher.

There are a lot more wealthy collectors around, and since the supply of prestige art is more or less constant, there is steady upward ratchet on prices. In 2007, Forbes magazine reported a record 946 billionaires, 415 of those in the United States. There were 176 newcomers, including 19 Russians, 14 Indians, and 13 Chinese. These are the same people who arc buying football teams and penthouse apartments in London and New York. They are also people for whom alternative investments like art are another form of currency, and will not be dumped. The newcomers pay cash. It would take a sharp drop in both financial and commodity markets worldwide to deter those who pursue property, luxury goods, and contemporary art.

Another factor is the boom in museum purchases. Four new museums in the United Arab Emirates—the Louvre and Guggenheim in Abu Dhabi, one in Dubai ,and one in Sharjah, plus a new contemporary museum in Qatar, will between them absorb four hundred to five hundred works each year for the next ten to fifteen years. Each museum will focus on branded artists, expensive but needing less justification to boards of directors and the news media than work by unbranded artists. Auction houses and dealers are drooling—and opening new offices in the Emirates. There are about a hundred new museums being opened in China that will focus on contemporary art. Auction house specialists say that Chinese buyers bid on almost every Warhol that appears at auction. If each of these 100 were to acquire just two Warhols, Chinese demand alone would prop up the Warhol market for years.

At the end of the 1990s, when the dotcom bubble burst and share prices fell, everyone assumed that contemporary art would crash. Instead prices increased as people shifted money from the stock market into art. How will we know if the art bubble bursts? The conventional answer is that the first signal would be disastrous back-to-back sales at Christie's and Sotheby's. One auction failure might reflect mediocre consignments or overly-aggressive reserves, a second means a deflating bubble. Auctions are the first and best indicator of what the market is doing because auction prices are transparent and widely reported. The dealer and art fair markets are opaque, and dealers have every incentive to hide low prices.

As soon as buyers think the bubble has burst they pull back. In mid-1990, paintings by Julian and Sandro Chia had a long waiting list. By October the list had evaporated and their art was being discounted. By Christmas there were no buyers even at discounted prices. Speculators and most private collectors are the first to disappear from the buying side. Dealers appease their bankers by paring inventory, consigning art to auction houses, and offering favored collectors large discounts on the promise of secrecy. in three months, as leases expire, the first galleries close and inventory from other galleries starts to appear at auction.

The dominance of auction houses has forced many dealers to rely on art fairs. Fairs now both drive the market and restructure it. Two hundred and fifty dealers in one place generate a huge crowd and great excitement. Dealers supported art fairs as a way to compete with auction houses, but now they find their gallery sales cannibalized by the same fairs. This is a problem for a dealer who has to absorb the high cost of attending fairs. It is much worse for a dealer outside the charmed two hundred and fifty who win admission to a major fair. Mainstream dealers who two decades ago might have ten walk-in visitors a day, today get three or four. They may go a month without a walk-iii sale. A few have closed their galleries and now rely on middle-level art fairs and some private dealing.

The change in marketing is changing the process of collecting. First auction houses and then fairs encouraged collectors to bypass dealers. New collectors do not develop the breadth of knowledge that used to be a prerequisite of connoisseurship. They buy what the art consultant or the auction specialist at Christie's or the writer at Frieze magazine tells them is hot. Art fairs create more buyers but fewer collectors. Buyers are more detached from the art market, acquire impulsively, and only infrequently set foot in a gallery. Contemporary art becomes a commodity acquired in a shopping center. Dealers lose more of their traditional role.

Dealers best chance is to put up a lot of capital to purchase a work, or else become resigned to dropping back to handle work on which auction houses do not make offers. Art dealing is ever more a money game.