

Suspended animation

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The art market has suffered from the recession, but globalisation should help it recover, say **Fiammetta Rocco** and **Sarah Thornton**

THE longest bull run in a century of art-market history ended on a dramatic note with a sale of 56 works by **Damien Hirst**, "Beautiful Inside My Head Forever", at Sotheby's in London on September 15th 2008 (see picture). All but two pieces sold, fetching more than £70m, a record for a sale by a single artist. It was a last hurrah. As the auctioneer called out bids, in New York one of the oldest banks on Wall Street, Lehman Brothers, filed for bankruptcy.

The world art market had already been losing momentum for a while after rising vertiginously since 2003. At its peak in 2007 it was worth some \$65 billion, reckons **Clare McAndrew**, founder of Arts Economics, a research firm—double the figure five years earlier. Since then it may have come down to \$50 billion. But the market generates interest far beyond its size because it brings together great wealth, enormous egos, greed, passion and controversy in a way matched by few other industries.

In the weeks and months that followed Mr Hirst's sale, spending of any sort became deeply unfashionable, especially in New York, where the bail-out of the banks coincided with the loss of thousands of jobs and the financial demise of many art-buying investors. In the art world that meant collectors stayed away from galleries and salerooms. Sales of contemporary art fell by two-thirds, and in the most overheated sector—for Chinese contemporary art—they were down by nearly 90% in the year to November 2008. Within weeks the

world's two biggest auction houses, Sotheby's and Christie's, had to pay out nearly \$200m in guarantees to clients who had placed works for sale with them.

The current downturn in the art market is the worst since the Japanese stopped buying Impressionists at the end of 1989, a move that started the most serious contraction in the market since the second world war. This time experts reckon that prices are about 40% down on their peak on average, though some have been far more volatile. But Edward Dolman, Christie's chief executive, says: "I'm pretty confident we're at the bottom."

What makes this slump different from the last, he says, is that there are still buyers in the market, whereas in the early 1990s, when interest rates were high, there was no demand even though many collectors wanted to sell. Christie's revenues in the first half of 2009 were still higher than in the first half of 2006. Almost everyone who was interviewed for this special report said that the biggest problem at the moment is not a lack of demand but a lack of good work to sell. The three Ds—death, debt and divorce—still deliver works of art to the market. But anyone who does not have to sell is keeping away, waiting for confidence to return.

The best that can be said about the market at the moment is that it is holding its breath. But this special report will argue that it will bounce back, and that the key to its recovery lies in globalisation. The sup- >>

Acknowledgments

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Pictures

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Andy Warhol, "Eight Elvisses", © The Andy Warhol Foundation for the Visual Arts, Inc.
Shadi Ghadiri, "Like Everyday Yellow Glove", 2000-01. Courtesy Saatchi Gallery.

An audio interview with the author is at

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More articles about the art market are at

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Supply of the best works of art will always be limited, but in the longer run demand is bound to rise as wealth is spreading ever more widely across the globe.

The World Wealth Report, published by Caggemini and Merrill Lynch, charts the spending habits of the rich the world over. It includes art as one of a range of luxury items they like to buy. According to the report, in 2007 there were over 10m people with investible assets of \$1m or more. Last year that number dropped to 8.6m and many rich people scaled back their "investments of passion"—yachts, jets, cars, jewellery and so on. But the proportion of all luxury spending that went on art increased as investors looked for assets that would hold their value in the longer term.

The regional spread of buyers also changed significantly as some parts of the world became relatively richer. During the boom the number of wealthy people in Russia, India, China and the Middle East rose rapidly. In 2003 Sotheby's biggest buyers—those who purchased lots costing at least \$500,000—came from 36 countries. By 2007 they were spread over 58 countries and their total number had tripled.

That upward trend is still continuing, and many of the new buyers take a particular interest in the art of their own place and time. Last year China overtook France as the world's third-biggest art market after America and Britain (see chart 1), and some 25% by value of the 100,000-plus works of art sold by Christie's went to buyers from Russia, Asia and the Middle East.

Auction records remain dominated by Impressionist and modern works (see table 2), but the biggest expansion in recent years has been in contemporary art. Prices of older works keep going up as more people have money to spend, but few such works become available because both col-



lectors and museums tend to hold on to what they have. Old Master paintings, for example, have stuck at around 5% of both Sotheby's and Christie's sales for many years. By contrast, contemporary art, which in the early 1990s accounted for less than 10% of Sotheby's revenues, grew to nearly 30% of greatly increased revenues by last year. Dealers and auction houses now sell more post-war and contemporary art than anything else. This report will concentrate on that part of the market, which accounts for about half the world's art trade and most of the excitement.

Part of the extra demand has come from a large increase in the number of museums. Over the past 25 years more than 100 have been built, not only in America and Europe but also in the sheikhdoms of the Persian Gulf and the fast-growing cities in Asia; sometimes in partnership with Western institutions, such as the Guggenheim or the Louvre, sometimes on their own. Many of these institutions have made their mark by buying contemporary art.

Over the same period the number of wealthy private collectors has also increased many times over, and so has their diversity. The record price for one of Andy

Warhol's giant faces of Chairman Mao was \$17.4m, paid by Joseph Lau, a Hong Kong property developer. It was the first major Warhol to go to the Far East. A month later the Qatar royal family bought a Hirst pill cabinet, entitled "Lullaby Spring", for £9.7m, the first major Hirst bound for the Middle East. Everyone wants an iconic work, which helps explain the global demand for artists such as Warhol, Jeff Koons and Mr Hirst—and the eye-watering prices such work can command.

Masters of the art universe

Straddling all areas of the art market is a handful of individuals who have emerged as the key figures in the art world in recent years. Chief among them is François Pinault, a luxury-goods billionaire who is also a noted collector of contemporary art and the owner of Christie's. Philippe Ségalot, his French-born adviser, was behind one of the biggest deals involving a single work of art, the private sale of Warhol's 1963 painting, "Eight Elvises", to an anonymous buyer for over \$100m.

Mr Ségalot is also believed to be advising the royal family of Qatar, which in the past two years has spent large sums buying modern art at auction, including record-breaking works by Mark Rothko and Mr Hirst. Steven Cohen, an American hedge-fund billionaire, also owns works by Warhol, Mr Hirst and Mr Koons. Mr Cohen used to be a sizeable shareholder of Sotheby's and is still an important provider of liquidity to art buyers.

The popularity of blockbuster art exhibitions and the emergence of buyers with a different cultural history have helped change tastes. Artists such as Edvard Munch and Vasily Kandinsky rose sharply after solo shows in London and New York. Alexei von Jawlensky and Emil Nolde

2008	\$m	2009	\$m
Francis Bacon, <i>Triptych</i> , 1976	86.3	Henri Matisse, <i>Les Couscous, Topis Bleu et Rose</i> , 1911	46.5
Claude Monet, <i>Le Bassin aux nymphéas</i> , 1919	80.8	Andy Warhol, <i>200 One Dollar Bills</i> , 1962	43.8
Kazimir Malevich, <i>Suprematist Composition</i> , 1916	60.0	Constantin Brancusi, <i>Madame L.S.</i> , 1914-17	37.8
Francis Bacon, <i>(Untitled) Triptych</i> , 1974-77	57.7	Eileen Gray, <i>Diagonis Armchair</i> , 1917-19	28.3
Mark Rothko, <i>No. 15</i> , 1952	50.4	Piet Mondrian, <i>Composition avec Bleu, Rouge, Jaune et Noir</i> , 1922	27.9
Claude Monet, <i>Le Pont du Chemin de Fer à Argenteuil</i> , 1873	41.5	Alberto Giacometti, <i>L'Homme qui marche</i> , 1950-51	19.3
Francis Bacon, <i>Study of Nude with Figure in a Mirror</i> , 1969	39.8	Edgar Degas, <i>Petite Danseuse de Quatorze Ans</i> , 1922	18.8
Fernand Leger, <i>Etude pour la Femme en Bleu</i> , 1912-13	39.2	Piet Mondrian, <i>Composition avec Grille 2</i> , 1918 & 1942	18.6
Edvard Munch, <i>Vampire</i> , 1893-94	38.2	Claude Monet, <i>Dans la Prairie</i> , 1876	16.2
Edgar Degas, <i>Danseuse au Repos</i> , 1879	37.0	Fernand Leger, <i>La Tasse de Thé</i> , 1921	14.9

Source: Christie's and Sotheby's

III.
25%

were regarded as specialist interests until Russian collectors began seeking them out. Zhao Wuji used to be just another Chinese painter-in-exile; now he is recognised as an Abstract Expressionist master influenced by Paul Klee and praised by both Joan Miró and Pablo Picasso.

How to sell it

One of the biggest changes since the market last peaked in 1989 has been the expansion of the auction houses and the change in the nature of the dealer business. Twenty years ago auction houses sold to dealers, and dealers sold to private customers. Today many collectors are advised by auc-

tionneers, both at sales and privately.

Rising costs brought trouble to many old-fashioned fine-art dealer emporiums. In London Christopher Gibbs has sold his stock and Partridge is in administration. In Paris Galerie Segoura has closed, as has Salvatore Romano in Florence. Many dealers now prefer to take art works on consignment, matching sellers to buyers for a commission rather than investing in stocks of art.

About half the market's business, reckons Ms McAndrew of Arts Economics, is conducted at public auctions, with Christie's and Sotheby's taking the lion's share. Smaller houses include Drouot in Paris,

Bonhams, which is based in London but has several offices abroad, and Doyle in New York. The other half is generated by private dealers and galleries that are notoriously secretive. One of the biggest private deals in recent years came to light only because the details were disclosed in an American court following the Bernard Madoff scandal. Last July ten paintings by Rothko and two sculptures by Alberto Giacometti were sold by a New York financier to help repay Mr Madoff's investors. A mystery buyer spent \$310m on the works. Two dealers earned \$37.5m in fees.

By comparison with that private world, Sotheby's and Christie's auction business

50% BUSINESS via internet

The world's biggest saleroom

FOR centuries raising your hand was the way you bid at auction, whether you were buying sheep or Meissen shepherdesses. In the 1960s auction houses across the world introduced bidding by telephone, but the take-up was slow. Most would-be buyers used the phone to leave a bid with the auctioneer rather than to issue live instructions, round by round.

Now technology has opened up another possibility: online bidding. The auction houses are divided. Matthew Girling, Bonhams' chief executive for Europe and the Middle East, is against it. "We're not building an online business." Sotheby's has an elegant website that allows customers to browse its catalogues, look at sales figures going back all the way to 1998 and get real-time auction results for several sales at once. But it stops short of letting clients take part in auctions online, except for wine.

Christie's by contrast, has gone the whole hog. At the start of every sale the auctioneer welcomes those in the room and then takes a moment to look up at the camera and greet those who are following it online. Other auction houses dismiss this as a theatrical gesture, aimed at making bidders in the saleroom feel they are connected to the whole planet. But the figures tell their own story.

In 2008, Christie's says, £57m was bid or underbid using its online LIVE system, and just over a fifth of its lots were sold that way. More than a quarter of the on-



line bidders were new to the auction house. The majority of its online shoppers are in America and Britain, followed by France, Italy and the Netherlands. Online bidding tends to be strongest for items that buyers can preview elsewhere, such as watches, jewellery, wine and photographic prints. The price for lots bought online last year averaged \$6,000, though some people spend much more: in April 2008 a Stradivari violin "The Penny" was sold for \$1.3m in New York to a previously unknown online bidder in Russia.

The psychology of buying at auction still tends to favour the bidder in the room. He or she is part of the audience and can judge more easily whether competing bidders are approaching their limit. That is one reason why Christie's has been slow to introduce online bidding in its high-end evening sales of contemporary

Auctions are moving online

art. But in a recent sale of post-war Italian classics directly after its contemporary sale, a small Giorgio de Chirico oil of a white horse by the seashore, dating from the 1940s, was sold to an online bidder for £43,250, including commission and fees.

Christie's is confident that online bidding has huge potential that can be unlocked at modest cost. "All I can say," comments Andrew Foster, the president of Christie's Asia, is that it has been an incredibly worthwhile investment. It was profitable within 12 months.

Others are going the same way. Art Media, a British company that already services 450 auctioneers worldwide, putting their catalogues online and allowing buyers to leave bids, is about to launch a new Chinese arm to its existing online venture. This will be run in partnership with Qi Qi Jiang, a young Shanghai entrepreneur who combines developing her own business with studying for a doctorate in Oriental art at Oxford University. Auctioneers in China will be charged an £800 entry fee, in addition to the usual 3% of the hammer price - much the same as in Britain, where they pay £770, even though there are extra training and other development costs to be covered. The two biggest Chinese auctioneers, Beijing Poly and China Guardian, seem to think it worthwhile; they have applied to join.

Telephone buying took 25 years to catch up with the saleroom. Online bidding is likely to get there a lot faster.

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looks like a model of transparency. Although buyers and sellers are rarely named, the auction price is public. Yet even here there are dark corners. The leading auctioneers offer inducements such as guaranteed prices to persuade sellers to part with their treasures, and generous terms of payment for buyers.

One thing that differentiates the two auction houses is their ownership structure. Sotheby's is a quoted company whereas Christie's, once listed, was taken private in 1999 by its current owner, Mr Pinault. Christie's business has since expanded hugely, partly thanks to Mr Pinault's pivotal position in the international art world. Even though the company can pick and choose what information it wants to reveal, it has in fact become more open over the past ten years.

Sotheby's, for its part, is still smarting from the public beating it received in America nearly a decade ago when its chairman, Alfred Taubman, and its chief executive, Diana Brooks, were found guilty of conspiring with Christie's to fix commissions. Mr Taubman served ten months of a one-year prison sentence; Mrs Brooks was given six months' house arrest, a \$350,000 fine and 1,000 hours of community service. No one was charged at Christie's, which had blown the whistle on the commission-fixing. Sotheby's lives in fear of the regulators and discloses only as much financial information as it has to.

In the decade since the scandal both auction houses have concentrated on expansion. Sotheby's was the first auctioneer to become interested in Russia and re-

mains bigger there than its rival. Christie's, which has long been especially strong in the Far East, has put a lot of effort into China. Foreigners are not allowed to own auction houses there, but Christie's has got around that by signing a licensing agreement with a leading Chinese auctioneer. Both houses have their eye on the Middle East. Christie's holds regular auctions in Dubai, of which its art and jewellery sales are the most successful. Sotheby's has opened an office in Qatar which is important for its relationship with the Qatar royal family, one of its biggest clients.

The response of both auction houses to the current slump has been broadly similar: staff cuts, unpaid leave, a squeeze on salaries, slashed marketing and travel budgets, and an edict that the glossy auction catalogues, which in the boom cost each of them £25m a year to produce, were no longer to be handed out like chocolate drops.

With a hugely expanded international client base, it was only a matter of time before both auctioneers started to muscle in on areas that had previously been the preserve of private dealers, matching buyers and sellers and selling new art rather than items that had already been in the market. Sotheby's proved to be much the more ruthless of the two. All the lots in Mr Hirst's September 2008 sale, for example, had been consigned to Sotheby's directly from the artist's workshop, which shocked dealers who had not previously thought of the auction houses as direct competitors.

In 2006 Sotheby's paid \$56.5m for Noortman Master Paintings, a leading dealer in Old Masters. Less than a year lat-

er Christie's bought Haunch of Venison, another high-profile dealer set up in 2002, whose founders included a former director of Christie's contemporary-art department. Noortman gave Sotheby's an entry into the Maastricht Art Fair, the pre-eminent dealers' fest, and Haunch of Venison helped make Christie's Mr Pinault the biggest art trader in the market. Both galleries operate independently of the auction houses, but the relationships are close.

All things to all men

Both auction houses have also put a lot of effort into advising buyers on how to improve their collections. As Jussi Pylkkanen, Christie's European president, says, "We're much more than an auction house now." The recession has made many collectors nervous about offering their treasures at auction, so they are selling them privately. In 2007 Christie's chalked up private sales of \$542m and Sotheby's of \$730m, which means the two auction houses are now among the world's biggest private dealers. Both often get calls like the one Sotheby's recently took from a Moscow collector with \$2m to spend on an "optimistic" Chagall oil, "not too feminine" and no more than a metre in height. "We put out the word and immediately received several offers from our offices in London, Geneva and New York," says Mikhail Kamensky, the firm's head of CIS business.

In 2007 private deals accounted for 8.7% of Christie's business. Mr Pylkkanen expects that figure to go up to 20% of its revenue within three years. That should put the wind up private dealers. ■

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New or secondhand?

The ins and outs of primary and secondary markets

CONTEMPORARY art is bought in two main ways that appeal to quite different kinds of temperament. The primary market offers the work that emerges from artists' studios and is often displayed in carefully curated gallery shows. The secondary market involves the resale of art objects, either through private dealers or via auction houses. Except for charity auctions and the one-off Damien Hirst "Beautiful Inside My Head Forever" sale, which featured paintings and sculptures straight out of the artist's studio, primary auctions are almost unheard of. Twenty years ago

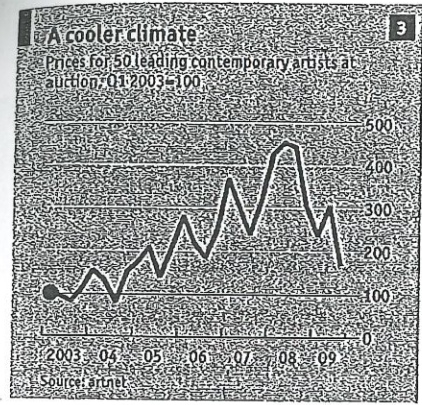
the recent work of living artists was rarely resold, but for the past decade contemporary art has accounted for a growing proportion of the auction houses' sales volume. In 2007, at the height of the boom, total auction sales of post-war and contemporary art exceeded those of Impressionist and modern.

Over the same period the number of primary dealers also rose rapidly. Many galleries greatly expanded their exhibition space and took to running several solo shows side by side. Some galleries opened up in foreign cities. For example, the Gago-

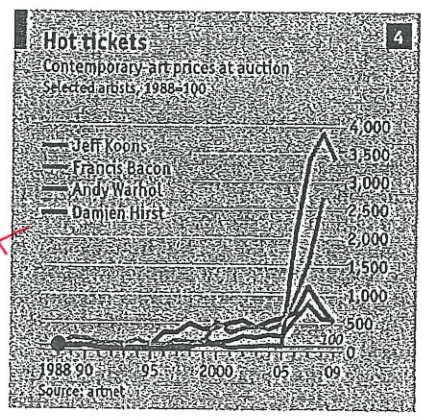
sian Gallery added new showrooms in Rome and Athens to its existing ones in New York, London and Los Angeles.

Primary-market collectors often like to meet the artists as well as look at their work. For them, studio visits or post-vernissage "artist's dinners" (a well-known art-world ritual) are not only part of the pleasure of collecting, they are an essential aspect of researching and developing their collections.

In the primary market the collector who offers the most money is not necessarily the one who wins the work. Galle-



cession. Collectors who may have stopped making regular gallery rounds still like to go to the fairs for an update on the latest work and, having taken the trouble to attend, do not want to return empty-handed. Collectors who buy most of their art on the secondary market are different beasts. They tend to see the primary market as murky, time-consuming and hierarchical. They prefer the "democracy" of the auction and the buzz of being in the sale-room—or perhaps the convenience of bidding on the phone from the comfort of home. They feel reassured by the auction houses' sophisticated marketing, global networks and glossy catalogues, and by the presence of an underbidder who is willing to pay a similar price.



artists will have a circle of collectors to whom they extend special privileges. This was more important during the boom, when many collectors might be chasing a single painting by a coveted artist, but in general it still holds true.

When primary collectors "buy in depth", meaning that they acquire a lot of work by a single artist, they can become integral to an artist's career. The gallerist will often give such supporters first pick of new pieces or even let them reserve works well in advance of a show. Collectors who "flip" work at auction may have their privileges withdrawn or find themselves excluded from the gallerist's coterie. That may hurt: many of them greatly value the opportunity to acquire a potential masterpiece.

Picking winners

Primary prices are usually lower than secondary ones, but the collectors who shop in this market are not so much bargain-hunters as risk-takers. In a few years' time their purchase may be worth ten times what they paid for it; conversely, they may not be able to sell it at all. It all depends on the stature of the artist in question. If he or she is "emergent"—which usually means young, but can also refer to older artists who have only recently signed up with a well-known gallery—the risk is greater, but so is the potential return.

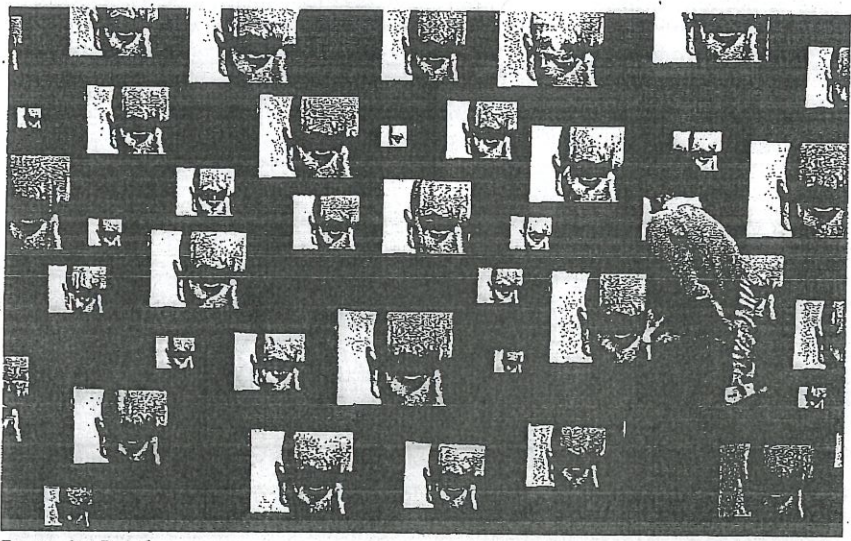
Apart from exhibitions in private galleries, the primary market revolves around art fairs. The upper floor at Art Basel in Switzerland, most of the stands at Art Basel Miami Beach in Florida and the entire Frieze Art Fair in London (not to mention many second-tier regional fairs in cities such as New York, Turin, Berlin, Shanghai and Buenos Aires) are important meeting places for the primary market. These fairs proliferated during the boom and still seem to be doing reasonably well in the re-

Artists often resent the huge profits that collectors can make by reselling their work at auction. Outsiders watching art being auctioned off for a lot of money tend to assume that the artists benefit, but in many countries, including America, they get nothing at all when their work is resold, and in Europe they receive only a tiny "droit de suite". Nor is the relationship between secondary and primary prices straightforward. For example, an artist such as David Hockney can find that his work from the 1960s commands higher prices than his more recent output.

Primary dealers usually like to keep quiet about their asking prices. They try to nudge them up gently so as not to choke off demand. By contrast, secondary-market dealers, and particularly the auction houses, have no vested interest in the career of any particular artist and simply try

to achieve the highest price possible. If a record price turns out to be a fluke or if the work fails to sell—both of which can damage the perception of an artist's worth—they move on to promoting someone else.

Increasingly dealers are working in both markets, either by developing a secondary-market practice in the backrooms of their galleries or by establishing a relationship with a living artist that gives them access to work fresh from the studio. These dealers are particularly active in the auction room, both "supporting" their artists by bidding on behalf of clients and buying work for their stock if it is going for less than expected. And although the interests of the two markets sometimes clash, they arguably need each other. These days the resale of contemporary art helps to inject cash into the primary market. Many more people buy art, and at higher prices, because they know they can sell it on. ■



Eye on Art Basel

How to make art history

Validation in the contemporary market

"GREAT art stands the test of time," goes the adage. But how exactly is the work tested? Put another way, in a world where anything can be art and where concept is king, how do works by living artists accrue value? The answer lies beyond the art market, in the broader terrain of the art world where artists and their oeuvres undergo a complex filtering process that insiders call "validation".

Validation is not straightforward. If you are pursuing a career in accountancy, you are confronted with a series of hurdles; clear them all, and you have arrived. For artists, life is much more complicated. In a social setting where the official rule is rule-breaking, the artist who crawls under the first hurdle, knocks over the second and does a strange scissor kick over the third may ultimately win the greatest recognition. Almost by definition, a competent artist is an insignificant one.

Still, there are moments when artists gather endorsement from the disparate factions of the art world. Most of those under 50 now have a fine-arts degree. Attending the right art school—usually, but not always, in or near a city with a lively art scene—is not only a means of acquiring knowledge, but also of establishing a peer group and a network of contacts.

After graduation, the biggest hurdle is finding a good dealer to represent you. "Validation is at the core of our business," explains Iwan Wirth, a dealer with galleries in London, Zurich and New York. "It is our expertise. Credibility is what an artist needs in the long run." When recruiting new artists, the quality of their work is most important, but with young artists a dealer may have only a few years of work to consider. "So you do a risk-assessment based on their character," says Mr Wirth.

Reputation management

A gallery's credibility rests on its stable of artists. The location, scale and aesthetics of a gallery's exhibition space inspire confidence, and strong curatorial connections and monied clients make a difference. But what matters most is a cluster of artistic reputations. When recruiting, dealers often act on the recommendations of artists who are already on their roster. It helps lend coherence to the gallery's programme and acknowledges that other artists are important arbiters.

Established artists lend gravitas to the younger artists in the gallery's stable, whereas the young provide the frisson of the new. Hauser and Wirth, for example, represents Louise Bourgeois, a French

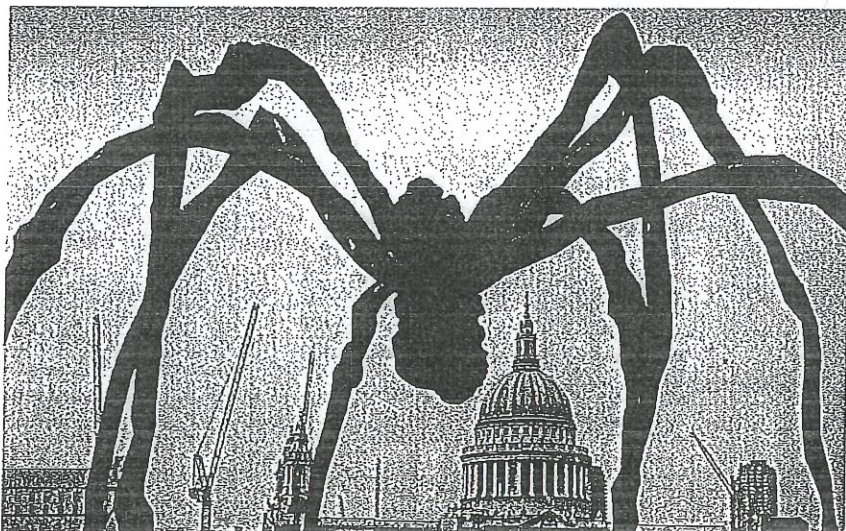
sculptress aged 97, but has also just exhibited work by Subodh Gupta, 45, a rising Indian post-modernist. Matthew Marks Gallery in New York represents Jasper Johns, an American master aged 79, and has just signed Paul Sietsema, a 41-year-old Los Angeles-born artist and film-maker.

Emerging art galleries often need the approval of prestigious art fairs to be taken seriously. The four leading fairs, in Basel, London, Miami and Paris, are oversubscribed and turn away many applicants. They rely on rigorous selection committees to impose quality control and do their best to avoid any hint of cronyism. According to Amanda Sharp, co-owner of the Frieze Art Fair, "Frieze's number one unique selling point is integrity. We try to make decisions in as balanced and informed a way as possible."

The most powerful validators have a reputation for independence. Paul Schimmel, chief curator of the Museum of Contemporary Art in Los Angeles, says that "institutions validate by doing rigorously researched shows that put aside politics. We maintain our credibility by working with a real variety of artists and curators that reveals many points of view." Mr Schimmel prefers the term "illuminate" to "validate", explaining that "my job as a curator is to make the art matter."

Artworks are among the few commodities whose status is affected by their owners, so dealers take great care in "placing" the works. The ideal buyer is a public museum of modern art, but in recent years collectors with private foundations, such as Glenn Fuhrman in New York and Don and Mera Rubell in Miami, have made a big impact on the primary market. In countries where the state shows little interest in contemporary art, the financial support of collectors is vital. In Italy, for example, the intelligent curating that accompanies the philanthropic efforts of fashion houses such as Prada and Trussardi and private individuals such as Patrizia Sandretto re Rebaudengo, a collector in Turin, turns their foundations into important trial grounds for young artists.

Collectors who sell off their works too quickly risk being seen as collector-dealers or investor-speculators, which detracts ▶▶



Unmistakably Bourgeois