

Day 11 - Daniel Chazen

Could the art world do without the auction house? I don't see why not; there are many other means of buying and selling art, e.g., galleries, ebay.com., etc. But the art market wants the auction house. There is nothing like an auction at Christy's or Sotheby's for a piece of art that brings many millions and exceeds estimated value. It makes headlines in the newspapers and is reported by the network news channels. Significant auction sales bring a level of notoriety that is probably better than any other marketing strategy. The major auction houses basically help every aspect of the art market. Even as wrong as fixing commissions was, the art market continues to drive the auction. And the auction drives the art market.

Today's readings about the price fixing scandal reinforce Thompson's point in his book that the "art trade is the least transparent and least regulated major commercial activity in the world" (Thompson 29). So I guess it's not surprising that the auction houses were involved in illegal activity. While it harmed the buyers, the sellers, and the integrity of the auction houses, I don't think it had a long-lasting or even a significant impact on the art market.

The auction house is a key part of marketing for the whole art world – not just for the auction houses, but for the galleries and everyone else involved. I don't think the scandal, as bad as it was, changed the perception of the auction house as being essential. I say this for two reasons.

Confidence: First, a perception of confidence must still exist because the fact is that both of the auction houses involved in the scandal are still in business and making a lot of money. Sotheby's stock trades at \$32 a share and has a market value of \$ 2.2 billion. <http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=BID:US>

Christie's had sales of \$3.2 billion in the first half of 2011. Here is a link to their press release:

<http://www.christies.com/about/press-center/releases/pressrelease.aspx?pressreleaseid=4940>

The continued confidence in the auction house may have initially been the product of the civil settlement they paid. But in the long run I think it had more to do with the fact that both the buyers and the sellers want the auction house system to remain in tact. So even if the art market could live without the auction house, I don't think anyone involved wants to do away with it.

Auction houses still do business as usual: Christy's did not fire high ranking executives who had knowledge of the price-fixing. Instead, many of them were promoted and some received multi-million dollar bonuses (Stewart 15).

For 2 – 3 years after the scandal broke, Sotheby's stock value dropped a lot and was only worth a few dollars a share. But aside from the drop again during the middle of the recession in 2009, the stock is now worth almost as much as before the scandal. To me, this means that the auction houses easily handled the problem and probably looked at it like a cost of doing business. Also, it shows that there is no perception that the market can do without the auction house. To the contrary, and even if its not essential, the people involved in the art market want and need the auction houses to continue growing business. If the perception was that the market could do without them, they probably would have closed down after the scandal.

Here is a graph of the history of the stock price for Sotheby's, which uses the symbol BID.



My opinion is that without the auction house, the art market would not be as successful as it is today. Anyone agree?