

Day 11 - McKenzie Sullivan

The art market, particularly in its auction form, has always been secretive and manipulative. Sotheby's and Christie's, dealers and collectors are all-powerful. The auction market shifts more than \$4 billion a year, and its two powerhouses, Sotheby's and Christie's, control 90% of that.

In 2000 Christie's rattled on Sotheby's by providing "information relevant" to the Justice Department, just weeks after Christie's chief executive, Christopher Davidge, hastily resigned. Davidge was followed by the two top officials of Sotheby's, A. Alfred Taubman, the chairman and largest individual stockholder who bought the firm in 1983 and took it public in 1988, and DeDe Brooks, its chief executive. The scandal unwrapped that Sotheby's and Christie's had been in cahoots to fix commission prices.

Auction houses charge two commissions on sales--one from the buyer, the other from the seller. It's perfectly legal to drop or raise prices after a rival does; gas stations facing off across an intersection do it all the time. What's illegal is for two or more rivals to form an alliance by agreeing in advance to fix a price. One of the signs that this was happening was a pattern of changes in the commission between Sotheby's and Christie's. In 1992 Sotheby's raised its buyer's fee from 10% to 15% on the first \$50,000 (on higher amounts the buyer paid 10%). After just seven weeks, Christie's announced an identical fee rate. Three years later, Christie's took the lead by changing its seller's fee from 10% to a sliding scale of 2% to 20%. After a few weeks, Sotheby's did the same thing.

I don't believe the long-term effects of the scandal have changed the perception of the auction house. Despite the broadcasted series of events, the investment and participation in the auction houses has not significantly declined. Shortly after the scandal Christie's announced a new fee structure, raising the amount buyers must pay to 17.5% on the first \$80,000 and 10% above that but reducing the seller's commission for customers who buy a lot of art. Sotheby's took longer to announce changes but reshaped itself into a monopoly. The major affect of the scandal was that dealers hoped that clients would buy more through them and less at auction. Although dealers sold the idea of a relationship with someone you know and can trust, there was still much appeal to the importance of live auctions. Although Sotheby's almost went bankrupt buyers were not very hindered.

As Ashenfelter and Graddy concluded, the price-fixing had minimal affect on buyers and so buyers were not hindered to continue to buy through the auction houses. Because the auction system provides incredible artwork that sometimes galleries cannot, there is still a market for the auction houses. I also there is more comfort in buying through an auction house as it is an established company, rather than a private gallery that seems less legitimate.