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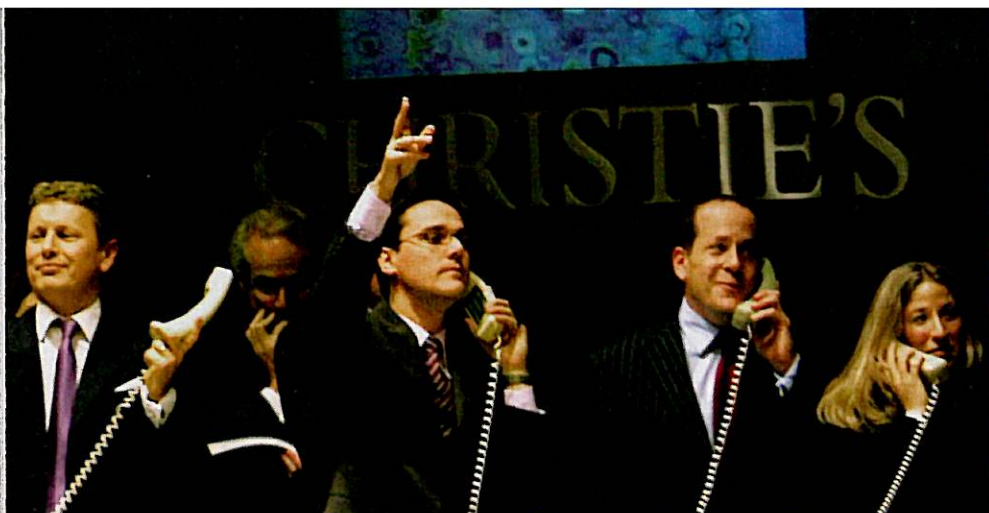


**WHY
THE CENTER
IS THE
NEW PLACE
TO BE**

By Joe Klein

\$4.95US





B U S I N E S S

Portrait of a Bull Market

What the latest record-setting prices for modern art say about the health of the U.S. economy

By JEANNE MCDOWELL

COLLECTING ART USED TO BE A rich man's sport, played by those whose bank accounts matched their passion for Picassos and Rembrandts. But times have changed. Now it's a *spectacularly* rich man's sport, as evidenced by the bidding frenzy that took place last week at Christie's in New York City, where \$491 million worth of Impressionist and modern art changed hands—the priciest art auction in history. Gustav Klimt's *Portrait of Adele Bloch-Bauer II* sold for \$87.9 million, obliterating the pre-sale estimate of \$40 million to \$60 million. Three other Klimts—part of a collection stolen by the Nazis during World War II and recently returned to the owner's heirs—fetched a combined \$104 million. An anonymous moneybags phoned in a \$40.3 million winning bid for Paul Gauguin's *Man with an Ax*—a record for that artist. “We were flabbergasted by the prices,” says New York art dealer Dominique Levy. “The bidding was coming from everywhere. It was an electric evening.”

The action at Christie's and at Sotheby's the night before, where sales of Impressionist and modern art totaled \$238 million, seemed to confirm that the market has reached another bubble phase. It's reminiscent of the bubble that inflated in the '80s, when dealmakers such as Australia's Alan Bond and yen jillionaires like Ryoei Saito chased Van Goghs to the stratosphere. (Saito paid \$82.5 million for *Portrait of Dr. Gachet*.) Dotcom entrepreneurs with Internet funny money bought Impressionists and Pop Art. Today a new generation of hedge-fund billionaires and Chinese and Russian kleptocrats is part of an ocean of capital flowing into galleries and auction houses. “There seem to be no limits to what people will pay, and in every kind of art,” says art-tax specialist Ralph Lerner, whose clients include some of the country's biggest collectors.

There are limits, of course, to any market; they just don't announce themselves until the damage starts. Art bubbles can presage stock market busts, as happened in 1987 and 2000. Several weeks ago, entertainment mogul David Geffen sold two postwar paintings by Jasper Johns and Willem de Kooning for a combined



GUSTAV KLIMT

Portrait of Adele Bloch-Bauer II

\$87.9 million



This portrait of the wife of one of Klimt's most generous patrons was the goal of gotta-have-it bidders at Christie's, in person and on the phone. She was the only woman the Austrian artist painted twice; the other portrait sold recently for \$135 million. *Adele I*, completed in 1907, is from Klimt's golden period. In 1938 the Nazis seized the art. Family heirs recovered it last March



\$143.5 million. Geffen also sold a Jackson Pollock last week for \$140 million, making it the single biggest art sale ever. It topped the previous record breaker—cosmetics magnate Ronald Lauder's purchase of Klimt's *Portrait of Adele Bloch-Bauer I* in June for \$135 million. Although Geffen is rumored to be liquidating some art to make a bid for the *Los Angeles Times*, it's just as possible that the man senses a market peak when he sees one.

The only glum faces in the art world belong to museum directors, who because of a new tax law may have a harder time obtaining these treasures. Tucked into the Pension Protection Act, which President Bush signed into law in August, the law imposes stricter limits on the popularly used method by which art collectors donate their works to museums. In the past, collectors would often hand over partial ownership of a painting—usually from 10% to 20%—and take a tax deduction for an equivalent percentage of the appraised value. The write-off on subsequent donations could rise each time the painting's value grew. Donors got a tax break, and museums got the art to exhibit for a period of time each year. Many such paintings were ultimately bequeathed to the museums.

At a time when museums are generally priced out of auctions for top works of art, that donation method, known as fractional giving, has been responsible for a substantial portion of the 80% of pieces that come through private donors. "It's a win-win situation," says Stephen Clark, deputy general counsel for the Museum of Modern Art in New York City, where roughly 650 works of art have been acquired via fractional giving, with about 650 more on the way—including Henri Matisse's *Plum Blossoms*. "It encourages art collectors to give because they get a tax benefit, but it also encourages donors to be prudent stewards of important art."

Already the new tax law is disrupting the traffic between donors and museums. That's in part because it requires a muse-

um to take possession of a piece of donated art within 10 years, not merely for a specific number of days each year, as under the present arrangement. And now donors' write-offs are limited to a painting's market value at the time the original gift was given, not its appreciated value. That may end up being a significant disincentive for giving. While the law's intent is to prevent donors from reaping tax breaks on art that isn't often seen by the public, museum directors say this rarely occurs. "I'd like to see the government produce some evidence," says James Cuno, director of the Art Institute of Chicago, which has about 200 fractional gifts in process. "The artworks usually end up in the museums, where for centuries they will be enjoyed by the public."

Museum officials, who are lobbying to have the tax provision withdrawn, say they're already getting the cold shoulder from potential donors. "There have been donors in negotiations who pull back immediately," says James K. Ballinger, director of the Phoenix Art Museum, which obtained two Georgia O'Keeffe paintings through fractional giving. Lerner says he's advising clients to hold off on donations and has pulled the plug on a \$20 million painting. "I don't go through a long explanation. I just tell the client, 'You can't do this any longer,'" he says. "They say, 'Fine.'"

Art is not only about investment, however, and at the center of each staggeringly expensive acquisition is a collector who is usually rapturous about a painting. "It's not like buying and selling shoes," says Los Angeles-based art adviser Patricia Claffa Peyser, who handles a number of high-profile collectors. "There's a sense of wonder and immortality about art that's precious to everyone. It transcends business." But as the art bubble continues to expand as a barometer of the overall health of the economy, even the most passionate collectors and the people who advise them are trying to figure out how long it can last and when it's going to burst.

FAR LEFT: MIKE SEGAR—REUTERS; FAR RIGHT: BRADY DAVID—SIPA