

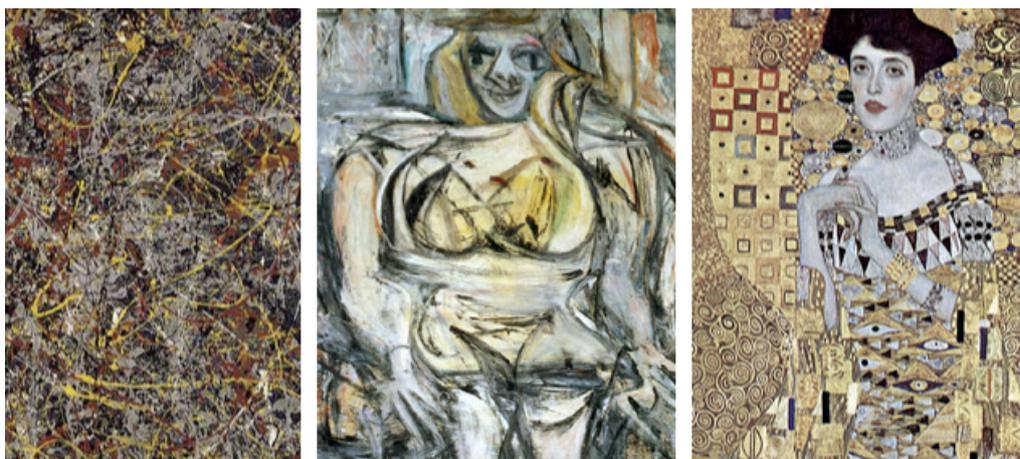

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The Art of Bubbles: How Sotheby's Predicts the World Economy

By Derek Thompson

Are record-setting auction prices a leading indicator of economic collapse? Some experts think so. And they're looking at China, whose blaze of auction records is looking eerily reminiscent of 1987 Japan and 2007 America.



HISTORY'S MOST EXPENSIVE PAINTINGS: The art pieces above [from left to right: *No. 5, 1948* by Jackson Pollock, *Woman III* by Willem de Kooning, and *Portrait of Adele Bloch-Bauer I* by Gustav Klimt] are the only paintings in history to sell for more than \$130 million. They were all sold in 2006, near the height of the housing bubble.

Once again, China has surpassed the United States in a key economic number. No, it's not GDP. It's art. In four years, China has zoomed past us from the world's fourth-biggest fine art scene to the world's largest auction market for art. Just last week, Chinese buyers helped Sotheby's and Christie's set (yet another) record by bidding up the price of a Chinese vase estimated to fetch \$800 all the way to [\\$18 million](#) -- a 22,000% mark up!

That's the kind of fever pitch the Economist [captured](#) when it reported "astonishing

bidding" by wealthy Chinese across the globe as "record after record has fallen away as newly wealthy collectors from mainland China have piled into salerooms in London, New York and Hong Kong."

China's meteoric rise in the global auction world might be a sign of well-earned wealth. But periods of record bidding are scarily accurate bubble predictors, according to Vikram Mansharamani, author of the [Boombustology](#). They're a "symptom of overconfidence and hubris" as a newly rich society spends its easy money with exponential flamboyance.

It's not hard to see signs of froth and fake wealth in China. Housing investment hit the inauspicious mark of 6% of GDP, the same level the U.S. touched in 2006 before our bubble burst. Meanwhile, the Chinese government has spent lavishly on ghost towns like Qunghashi (a city built for 1.5 million residents and occupied by only 20,000) and ghost malls like New South China Mall -- built to handle 1,500 tenants but home to only a few dozen.

China's appetite for fine art isn't a stray indicator, Mansharamani says. It's a telltale clue from a disaster movie we've seen play out at least three times before.

SOTHEBY'S STOCK: THE WORLD'S ALARM BELL

Let's go back to the halcyon days of our own bubble. In November 2006, David Geffen, the producer of "Cats" and co-founder of DreamWorks Pictures, sold [No. 5, 1948](#) by Jackson Pollack for \$140 million, making it the most expensive painting ever sold. Two weeks later, he nearly broke his own record, unloading [Woman III](#) by Willem de Kooning for a cool \$137 million. These paintings broke a six-month record set by another New Yorker Ronald Lauder, who had bought a Gustav Klimt portrait for \$130 million for his Neue Galerie. It was a very good year for auctions, stocks, and CDOs.

It was also the end of an era. It's no coincidence that these auctions occurred near the frothy tip of a credit bubble, Mansharamani says. In fact, tracking auction records and auction house stock is one of the best ways to smell out a simmering economic crisis.

SOTHEBY'S STOCK





"As one of the world's leading art auction houses, Sotheby's has been a beneficiary of booms in the art market," he writes. In the last 20 years, Sotheby's mostly stable stock has experienced four sharp peaks. In the late 1980s, Japan had been "the center of gravity" in the international art market. But its economy imploded, sending Sotheby's stock reeling. Ten years later, the Internet bubble drove another auction boom among Silicon Valley newbies, and the bubble burst again. Ten years later, we watched the same film play out. This year could be *deja vu*, all over again ... all over again.

UP, UP, AND AWAY

In May 2010, an anonymous bidder believed to be Chinese forked over \$106 million for *Nude, Green Leaves, and Bust*, the most ever paid for a Picasso. Five months later, three bottles of Chateau Lafite 1869 sold at Sotheby's for 30-times their pre-auction estimate, at \$230,000 per bottle to Chinese bidders. In November, an 18th century vase sold for \$70 million. Eight figures for a *vase*.

Three data points don't prove a bubble. But nobody bids in a vacuum. Auction house madness is always symptomatic of a broader crisis, and it's true in China, too. Overinvestment, overconfidence and easy money are conspiring to drive up the price of everything, from 18th century vases, to garlic, to homes, food and land.

Mansharamani makes an *eerie supporting argument* for a bubble in China: skyscrapers. In 1929, the world's three tallest buildings were in New York. In 1997, before the Asian financial crisis, the Petronas Towers took the title from Sears Tower. Thirteen years later, the record-setting Burj Dubai was erected just as the latest financial crisis hit Dubai. It turns out that the world's ten tallest new buildings are like a worldwide pulse of bubblicious economic activity.

In 2015, he notes, Chinese skyscrapers will occupy spots #2, 3, 5, 9 and 10.

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