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Davos 2015: Nouriel Roubini says art market needs regulation

John Gapper and Peter Aspden in Davos



Regulation is needed in the art market because it is vulnerable to money laundering, tax evasion, trading on inside information and price manipulation, says one of the world's most respected economists.

Professor Nouriel Roubini, an economist at New York University's Stern School and himself an art collector, said the market had to regulate itself or be subjected to external regulation because it had weaknesses that would not be allowed in other kinds of financial markets, such as equities.

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"Whether we like it or not, art is used for tax avoidance and evasion," Prof Roubini said. "It can be used for money laundering. You can buy something for half a million, not show a passport, and ship it. Plenty of people are using it for laundering."

Martin Roth, director of the Victoria and Albert Museum in London, said the art market was distinct from the world of museums. "It is a camouflage thing that is called the arts but it is money laundering. In the end it is just a business and a global currency, not really related to the art world," he said.

Speaking at a forum host by FT Weekend Mr Roth said cash strapped museums were finding it more difficult than ever to keep pace with the growing art market.

The V&A's annual acquisitions budget was in the hundreds of thousands of pounds, while multimillion pound sales were becoming common in the auction houses.

This week both of the big auction houses announced record sales figures. Christie's reported global sales of £5.1bn for 2014, up 12 per cent on the previous year.

Sales were buoyed by ecommerce activities, a new area for the auction house, which realised £21.4m, up 54 per cent on the previous year.

Sotheby's said it was not yet ready to release its annual sales figures, but auction sales alone, not including private sales, amounted to \$6bn, up 18 per cent on the previous year.

Clients from greater China purchased more than \$1bn worth of art across salesrooms worldwide.

In depth

The biggest growth was in impressionist and modern art which was up 26.7 per cent to \$1.4bn.

WEF: Davos 2015

Mr Roth said it was not possible to compete with the biggest participants in the art market but that it was the role of museums to take a more long term view of the worth of art.

Prof Roubini, who earned the sobriquet Dr Doom for predicting the collapse of the US subprime housing market that led to the financial crisis, argued that the art market had characteristics that needed regulation. "While art looks as if it is all about beauty, as a business it is full of shady stuff," he said. "We should correct it or it will be undermined over time."

He said these weaknesses included routine trading on inside information, price manipulation through guarantees offered by dealers on auctioned work, and tax avoidance by the transfer of paintings within families. One reason why the art market was so strong in the US was favourable tax treatment, he said.



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"Inside information is considered standard [in the art market]. In other markets, it is thought of as being illegal," Mr Roubini said. He added that the art market was prone to "fads, passions, manias, booms and busts," because art works had no clear financial value and the market was opaque.

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