Chapter 6

Containing Uncertainty: A dealer ring in 1780s Paris auctions

Neil De Marchi and Hans J. Van Miegroet,[1]
Department of Economics and Department of Art & Art History and Visual Studies, Duke University

A ring to control winning bids, but with the unwitting connivance of private buyers

Recent scholarship has established that a relatively small group of dealers in paintings seems to have exercised unusual control over art auctions in 1780s Paris. We are not aware of any documented accounts describing exactly how this control was exercised but, in terms of results, a recent study by Charlotte Guichard of fully annotated, surviving catalogues from 31 sales in the 1780s of which we may be sure that they were organised by the prominent dealer Jean-Baptiste Pierre Lebrun (1748–1813), shows that 55 per cent of the winning bidders were dealers. Moreover, the same eight dealers attended more than 20 of these sales, and another 13 dealers more than 10. Only occasionally in a sale did private buyers predominate among the winning bidders. These findings might point to a dealer ring, a possibility strengthened by evidence Guichard has found of a credit circuit among a sub-group of identified dealers.[2]

There is in fact a description of a dealer ring by a contemporary observer of the Paris scene, Louis-Sébastien Mercier, a counsellor to the Paris

Parlement. Mercier makes particular mention of something that might help explain the high propensity to win of a tight circle of dealers as observed by Guichard, namely, that the members of the ring were willing to bid *up* in order to squeeze out private buyers.

That in itself would have been unusual. Rings typically seek to keep winning prices below truly competitive levels. By internal agreement, all ring members except the one designated bidder for each lot of interest simply hold back, causing the bidding to be less intense and winning bids to be below their freely competitive level. Then, after the public sale, the ring holds its own private auction at which members bid their true valuations. Assuming the winning true valuation exceeds the winning bid at the public sale, the (positive) difference is shared among the members by some formula of the ring's devising. Symmetric reasoning would suggest that, by deliberately bidding up, the ring would incur losses. Mercier noted this but minimised the apparent irrationality of the strategy by suggesting that any losses, when shared, would be small. He seems not to have considered that winning bidders might have had particular rich collectors waiting in the wings and willing to pay a high price for specific paintings possibly in the expectation that the price might be still higher at a future re-sale.

By combining Mercier's description with Guichard's analysis we shall try to supply a single rationale for both the bidding up he mentions and the credit circuit she has identified. We assume that the ring implicit in Guichard's findings and the one Mercier actually observed were one and the same. Of key importance to the construction we place on Guichard's evidence is that the dealers comprising a ring were not the final buyers; they had to have bid up in the reasonable conviction that they could pass on their acquisitions to their collector clients, their high winning bids being fully incorporated into their asking prices. Before exploring this further, here is an extract from Mercier's description of Paris's paintings auctions in the 1780s, the same decade for which detailed auction records were available to us:

> In these [public] auctions there is a private feature . . . It consists of a 'ring' of dealers who do not outbid each other . . . because all of those who are present at the sale are interested, but when they see a private buyer anxious for the article, they bid up and raise the

> price against him, supporting the loss, which becomes a small matter when divided amongst the members of the 'ring.' These sharpers thus become masters of the situation [*maîtres des prix*] for they manage matters so that no outside buyer can bid above one of their own . . . When a thing has been run up sufficiently high to prevent any outside bidder making a profit, the ring meets privately, and the article is allotted to one of the members. This arrangement accounts for the high prices which surprise so many persons of experience . . . This conspiracy against the purse of private persons has driven many buyers [*un nombre infini*] from the auction room.[3]

Mercier had many complaints about Paris dealers, but we suspect that he might have exaggerated the conspiratorial element and the damage done to the population of private buyers. Our sense is that the real purpose of bidding up was less to eliminate private buyers than to signal to the clients of the dealers comprising the ring that paintings were a strong investment. Their argument? That winning bids may be high, but collector-investors could rest assured that the market value of older works of the quality desired by them would rise still higher, not least because of growing scarcity. Of course, the public sales were only one location for acquiring paintings, and scarcity just one component of a case for considering them a sound investment. The full argument will be addressed below. For the moment, all that needs to be emphasised is that opting to outbid private buyers was a choice by the ring to engage selectively in truly competitive bidding in the expectation that the resulting high prices could be passed on to collectors. Bolstering this expectation was the feeling that their clients would have less reason to baulk at high prices if winning bids were public knowledge. Which they were; not only did the auctioneer call the bids, bring down the hammer and submit an official record, but there were independent on-the-spot observers, the private buyers themselves.[4] Contrary to Mercier's indirect allegation, it was not at all in the ring's interest to seek to decimate, much less eliminate, these buyers.

A credit circuit as an additional means of control

If the members of the ring could pass on high and even rising prices at auction with the ordinary margin added, its members' profits in absolute terms would strengthen over time. But it was not a given that, able and willing in principle though their collector clients might have been, they would passively accede to whatever heightened prices their dealer suppliers asked of them. It is more likely that they needed to be persuaded that acquiring at heightened prices was consistent with paintings being a sound investment. It should be no surprise therefore that the ring also actively promoted fine older paintings. Such promotion, to be discussed below, was a second aspect of control adopted by members of the ring, complementing their selective competitive bidding against outside buyers. And there was a third.

Figure 7.1 Top 10 winning bids and trends, Lebrun sales 1780s

Dealers, including members of the ring, faced all manner of uncertainties. These included the timing of deaths among an earlier generation of collectors, and thus the flow of older paintings coming on to the market from that source. Nor, since collections were of very uneven quality, was this flow just a matter of numbers. In addition, the dealer-organiser of a sale could not predict who might attend or assign an agent, and what their particular interests might be. The combined effect of these three elements – unpredictable timing, uneven quality, unknown attendance and specific interests represented at individual sales – was considerable volatility in winning bids, both across and within sales. Upper-end winning bids in 29 of the 31 sales we are sure were directed by Lebrun in the 1780s show this volatility very clearly.

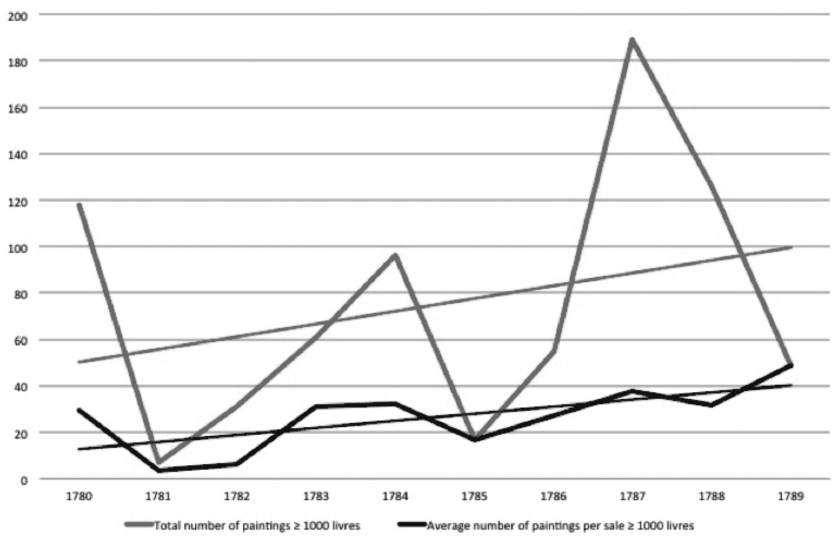


Figure 7.2 Winning bids at or above 1,000 livres and trend, Lebrun sales 1780s

Volatility of course mattered in that it meant that a dealer's cash flow was uncertain, and cash-flow problems could cause bankruptcy. Bankruptcy did not necessarily put a dealer out of business permanently, but it was disruptive and costly, involving legal fees, public embarrassment and time-consuming and often complex settlement procedures with creditors.[5] One impetus for the ring to set up a credit circuit was the desirability of lessening somewhat the potential negative consequences of uncertainty.

9781472902900 Risk and Uncertainty in the Art World (927h) 4th pass.indd 129 13/01/2014 13:13:56

Guichard has adduced circumstantial evidence for believing that a credit circuit was a deliberate creation of the ring. She points out that Lebrun's 'for cash' sales were held only towards the end of a year when, conventionally, reckonings were held. This suggests that sales at which credit was available to (selected) winning bidders were the norm. The dominance of sales 'for credit' plus the timing of sales 'for cash only' point to the credit circuit's having been deliberately contrived and put in place.

Again, as to why the ring might have done this, sales for credit conferred not one but two degrees of freedom on its dealer members. First, as noted, credit constituted a buffer against the immediate negative consequences of cash-flow problems. And this seems to have worked: Guichard points out that outsiders were more affected by bankruptcies than were members of the ring.[6] Second, credit enabled purchases to be made at the public sales on a larger scale and at higher prices than in a strictly cash-only regime. Of course settlement had to be made at some point, but postponing it even by a few months enhanced the chance of finding a buyer in the meantime.

In terms of who was at the centre of the credit circuit, Guichard has examined 33 surviving, fully annotated catalogues out of the 51 Lebrun-organised sales in the 1780s. Full annotation here means that the names of and amounts paid by winning bidders were recorded; typically too an address was given for each winning bidder. In addition, frequently there was an indication as to whether that person was indebted to Lebrun or he to them, or that an earlier debt had been cleared. Lebrun was the largest winning bidder (measured by total amount committed) in two thirds of sales he organised, in line with what Patrick Michel reports in his *Le Commerce du Tableau à Paris*, namely, that Lebrun could be an unrestrained bidder and was frequently in need of credit.[7] These mutually reinforcing pieces of evidence in turn strongly suggest that Lebrun was at the centre of both the bidding ring and its complementary credit circuit.

In a strictly historical account it would be satisfying to be told at this point how large the ring was and who were its members. But the ring operated just outside the law and it is unsurprising that no list of members has been found. Plausible guesses can be made as to the *core* membership, based on known long-term associates of Lebrun. In part too it was a family affair; his younger brother Joseph-Alexandre and his stepfather (after his father died in 1771), Nicolas Lerouge, both dealers, were regulars at his sales. Family and known close associates aside, we can add a few other dealers whose signatures appear on short-term notes (letters obligatory) uncovered by Guichard. Such notes were transferable and payable to the bearer. At a transfer it was common therefore for a letter obligatory to be endorsed in favour of the new owner. In terms of likely participants in the ring and the credit circuit, all told it seems likely that the core may have comprised as few as the eight dealers who attended most of Lebrun's sales.[8] As Charlotte Guichard emphasises, the worlds making up the Paris paintings market were small.

Two additional observations of hers reinforce this characterisation. First, among the annotations on catalogues Lebrun owned (which she estimates at over 1,000), few names are unfamiliar. Second, new dealers only rarely appeared.

Such circumstantial reasoning is not entirely satisfactory, but our concern is less with the precise composition and history of the ring than with exploring its likely economic rationale. The most important remaining aspect of that is the relationship between the ring and its probable clientele.

The dealers and their clients

In this context Patrick Michel speaks of the rise during the decade of the 1770s, not just of the dealers we associate with the ring, but of 'a new clientele of collectors'.[9] They were wealthy and, according to Michel, the 'most active' among collectors in our decade.[10] We may safely conjecture that a major component of this new clientele came from the class of *financiers*.

Financiers are sometimes called bankers, though mostly they were not that. First and foremost they were tax farmers, who contributed to the king's finances by purchasing for limited periods the rights to collect specific taxes in a particular location, out of which they were committed to transfer to the king some annual amount. As economic historian Roger Price explains, very few of them invested their net gains either in banking or in industrial enterprises. Instead, most engaged in commerce and, in an era of sharply rising commodity prices, many participated in short-term commodity price speculations. This was a natural counterpart to the tax farmers' constant pursuit of ways to extract more for themselves in the exercise of their taxing rights; for both immediate wealth enhancement and potentially profitable investments were necessary to support their lavish in-town style of living. Paintings were part of a lavish décor rather than contributors to an income stream, though, as we shall see, Lebrun made a strong case for fine paintings as both a source of pleasure and a good investment, the later, however, only over the medium to long term. He did not try to sell paintings for their speculative potential – to be bought and flipped (re-sold) quickly.[11]

One alleged difference between the 'new clientele of collectors' of the 1780s and those they replaced, is that the new were richer. Certainly the incomes of aristocrats among the preceding generation of collectors were more fixed, being tied mainly to inherited rights. By contrast, the financiers, as will emerge from our summary of the analysis of French tax farming by contemporary moral philosopher and economist Adam Smith, had both the incentive and opportunity to increase their personal wealth and therefore were capable of filling the role we are ascribing to them, namely, that they were able and willing to pay high and even rising prices for choice paintings supplied to them by the dealers of the Paris ring.[12]

Smith's account of French tax farming was that of an observer who lived in France from February 1764 to October 1766. During this period he became acquainted with the leading physiocrats and their writings, and with the reforming free-market advocate and later *Contrôleur Général des Finances* Anne-Robert-Jacques Turgot. Smith also frequented the home of financier/philosophe Helvétius and was close to the physician ThéodoreTronchin. Tronchin had two brothers: Robert, a banker who in 1762 became a tax farmer *générale* and François, banker/collector and steady client of Lebrun and his close associates. It is unclear whether Smith knew either Robert or François, but his understanding of the French tax farming system came from direct observation and familiarity with the very best of living and written sources. The account itself can be found in Smith's *Inquiry into The Nature and Causes of the Wealth of Nations* (1776), but it was drafted in France in 1766, a draft that survives in Goldsmiths Library, London.[13]

Smith noted two features of the French system of leasing out taxing rights. First, this method of collection was inefficient: it involved costs far in excess of a system in which there is a state apparatus to do the same job. The tax farmer had to make a profit on top of his own outlays and obligations, and these were substantial. They comprised the initial successful bid for the taxing rights, the annual amount to be transferred to the crown, the salaries of the collection officers and the cost of a whole administration. These unavoidable costs were so great that very few had the capital necessary to enter the tax farming business in the first place. That low number in turn fed into the farmer's interest in maximising his private net gain. With only a few bidders for the taxing rights, it was easy for those few to form and act as a ring, which often, Smith implies, they did, causing the rights to be acquired at auction for less than their 'real value'. This is one way in which the tax farmers appropriated undue amounts to themselves.

Second, tax farmers, although they did not make the tax laws, had a lot of leeway in specifying what had to be paid. They did so, Smith says, as oppressors, with ever-increasing severity, since they did not identify with the people and their whole interest ceased the day after the expiration of their purchased rights to farm, even if a universal bankruptcy among the payers should occur on that very day.

The tax farmer's power to exact ever more for himself may have rested in part on a threat of physical violence, but it also flowed from the fact that often he held the monopoly over taxed goods. Where this applied, as in the case of tobacco (addictive) and salt (a necessity), the power of exaction became well nigh absolute.[14]

The effect of the conditions and incentives described by Smith was that the tax farmer in France during the second half of the 18th century had the freedom progressively to enhance his starting capital.[15] That freedom might last only as long as the period for which taxing rights were originally obtained – originally six years for the rights enjoyed by tax farmers-general – but then he might bid for a new lease, or he could relinquish his rights to another member of his class, while he, having grown his own capital handsomely, would be free to invest in speculative schemes. Thus the composition of the group enjoying increasing wealth might change over time but the numbers at any one time were limited – 40 or so for tax farmers-general. This made them easy to identify and engage by dealers in paintings.

And indeed, Lebrun appealed directly to this group of collectors. In prefatory remarks entitled *Réflexions sur la peinture et la sculpture* in his printed catalogue for the paintings in the sale in 1780 of the important collection of M. Poullain, *Receveur générale des Domaines du Roi*,[16] he argued for paintings as a secure asset and one likely to rise in value over time. His argument focused on the medium to long run – hence not on speculation in the strict, economic sense – and on fine paintings collectively. That is to say, he did not pretend that the price of any specific painting in a particular sale could be predicted; nor did he deny that prices might sometimes fall.

In the first place, Lebrun noted, each fine painting is unique – more so than other objects of curiosity, such as books, porcelain, shells and diamonds, for which comparables can always be found. This uniqueness, he added, holds also for any two paintings by the same artist. The consequence of uniqueness is this: whatever valuation is put on a fine painting, its uniqueness makes that price more secure, less liable to change and especially less liable to fall, since in all strictness it can never be challenged by another. Such a comparison, which for other objects of curiosity might well lead to a loss of esteem, was simply out of the question in the case of fine paintings. This greater assuredness concerning the value of such paintings made them more attractive – a more 'certain' possession – than, not only any other 'object of curiosity,' but any item of merchandise. This last remark was perhaps directed at true commodity speculators among the financiers.

Lebrun invoked, in addition to this ground for assured value, the small number of truly fine paintings in existence plus the numbers regularly destroyed by inappropriate handling on the part of ignorant persons and by accidents and natural disasters (he mentioned specifically two collections lost at sea within recent memory). This growing scarcity made it likely that the prices of truly fine paintings would rise for the foreseeable future. Price reductions, he conceded, do occur, but they are likely to be relatively small.

Besides his arguments from uniqueness and the diminishing numbers of fine paintings, Lebrun inferred that the diffusion of good taste and rising wealth (this last true at least for tax farmers) – both demand-side factors – would also cause prices to rise for all objects of taste and luxury. And, on top of these three factors, he stressed that there is pleasure in owning and living with one's acquired paintings. This personal return would be enhanced if a man felt that the paintings he had acquired represented wealth well managed, a feeling – we infer – that could only be reinforced if the market value of the paintings were to rise and if his selections elicited approval from 'polished' persons in his circle.[17]

Lebrun's practical contribution to spreading the taste for fine pictures was to acquire for himself a relatively deep knowledge of various national 'schools' of painting and their respective artists – Italian, Flemish, Dutch and French in particular. This informational advantage he might then use to comment comparatively upon each painting in a sale in which he was involved, and on the artists represented, to the end of establishing a plausible basis for valuation. For example, for the Poullain sale (1780) he prepared just such a discursive and evaluative catalogue. It ran to 126 pages, not counting 16 prefatory pages largely taken up with his *Réflexions* on value, both artistic and commercial.

Having laid a basis for informed valuation in his discursive catalogue, Lebrun set up the actual Poullain sale as a series of mini-auctions which took place on successive business days, the actual lot order being specified separately from that in the discursive catalogue, on printed *feuilles de vacation*. Usually, such mini-auctions began with Italian works and ended with French. Flemish, Dutch and German works occupied the middle.

This sequencing roughly corresponded to an ordering by declining price. In the Vaudreuil sale of 1784, for example, the very first painting, an Italian piece ascribed to Beretini and Cortona, fetched far and away the highest price of the whole sale, though the correspondence was indeed rough, since a major part of Lebrun's business strategy was to promote Flemish and Dutch works. This he did with some success, achieving substantial prices for individual Netherlandish artists.[18] A recent study of lot order by price in 98 Paris sales with vacation sheets, 1767–1779, including sales organised by Lebrun, found a strong inverse relation between lot order by declining price and sale revenue. This accords with modern economic thinking about the best way to sequence lots by price so as to maximise revenue.[19]

This recent finding is relevant to the question as to what exactly the ring could claim to control. We have suggested that the ring might have served its member-dealers chiefly by establishing a public record of high prices that they could pass on to their clients, with the usual margin added. This ability in turn rested on the ring's members being able to convince their collector-clients that the prices were warranted. But that was just the point of Lebrun's multi-pronged argument invoking uniqueness, scarcity, wealth and taste. Prices for fine paintings, on his reckoning, should rise over the medium term, any fall being limited and temporary.[20] But, in spite of his apparent awareness of the relation recently identified anew between sale revenue and lot order by declining price, and as noted, Lebrun offered no guarantee as to how a specific painting would fare on a particular day. It is salient that he understood paintings and the market (of which lot order by declining price is one not unimportant element, and volatility another), yet felt he could be reasonably sure only about the *trend* of prices. We postulate that the dual facts that Lebrun distanced himself from speculative – strictly short-term – trading yet knew how to secure the most revenue from a sale, must have made his remarks on valuation convincing to contemporaries. And in that regard a probe into realised prices and prior price history is suggestive.

Towards testing Lebrun's carefully expressed argument and throwing some light on the trend lines in Figures 7.1 and 7.2 above, we selected a sale held in late 1784, the paintings section of which was organised by him. This was the (voluntary) sale of the collection of the Comte de Vaudreuil, *Grand-Fauconnier de France*. We focused in particular on re-sales and even more specifically on paintings for which a three-sale history can be traced and on cases where the period between initial and third price was at least five years.

12 lots qualified. The average time between first and third appearance at sale was just under 10 years. Thus these 12 instances serve to test Lebrun's

notion about assured value over the medium to long term; 10 years certainly is much longer than a ‘flipper’, or true speculator, would be willing to hold a painting acquired for its potential resale or investment value alone. In all but one instance the starting valuation was above 1,000 livres and the average was about 7,000 livres, meaning in addition that our small-scale test captures strictly high-end paintings, the very sort that Lebrun had in mind in making his argument about their likelihood to retain market value and even rise in price.

Of our 12 test observations, eight involved a gain in price between first and third appearance, while there were four instances of loss. Dividing average gain by the average number of years from first to third appearance yields average annual gain and this in turn, divided by average starting price among gainers yields the average annual percentage, here 3.5–4.0 per cent. The average starting price among the gainers was 7,424 livres. By contrast, all but one of the losses came on paintings whose starting price was less than 3.500 livres, still no mean sum. And, the average end price among gainers was 10,500 livres, for an average gain of 3,076 livres. Dividing this by the average number of years from first to third appearance for gainers (10.5) yields 293 livres. And dividing this by 7,424 (the starting price among gainers) yields 0.04, or 4 per cent, as the annual average percentage gain.

A number of objections can be made to our probe. Chief among them may be that the end-sale, that of Vaudreuil, happens to have been one at which the dealer Paillet was appointed to bid as agent to the king, giving an artificial fillip to the gains category.[21] At the same time, this sale followed a period in the late 1770s and early 1780s when, according to one recent scholar, the Paris market was saturated with paintings, tending to keep prices down.[22] Moreover, Paillet was the winning bidder in just three of the eight instances of registered gains in our small sample. Thus the upward bias introduced by royal patronage in this sale may not have been sufficient to destroy its value for our purposes.

We draw from our small exercise the conclusion that the prices of top paintings registered medium-term gains, though these were very modest.[23] That there was modest net gain is in line with what Lebrun claimed, while its having occurred over a term of 10-plus years on average clarifies that he was appealing to investors rather than speculators or flippers. Moreover, it subsumes some middle-appearance dips in price, exactly as he allowed might happen, sensibly so in the light of the uncertainties we noted earlier as to what any particular sale might bring.

Lebrun's position was not only distant from that of a speculator, it was also more restrained than that taken by Diderot who, in 1767, averred that buying paintings by contemporary French artists was deemed by financier-collectors to be money 'placed at a high interest'. For the artist will die, and the owner (or at any rate he and his children), having enjoyed the work for several years, will find that its value at that point jumps 20-fold, just because the stock of that artist's work can no longer be enlarged.[24] Lebrun, recall, put French paintings as a group at the rear in his mini-auctions, broadly speaking arranged by declining price.

The impression of the ring that emerges, partly by contrast with alternatives, is that it was a level-headed, informed and flexible appendage put in place to mitigate the risks of dealing in art and to strengthen its members' bona fides with serious collectors by assisting to sustain high and rising valuations, selectively, for fine paintings at auction. As viewed through Lebrun's words and actions the ring was neither as predatory towards the private bidder as Mercier implied nor did it exist to encourage speculative buyers. It also had staying power, coming to an end not from internal defection or failure in its efforts, but because of the Revolution and the radically changed circumstances for collectors and dealers that it ushered in.

Even then, as late as 1793 we find Lebrun boasting that he could control the revenue, not individual price, outcome of any sale he organised. This may have been extravagant but is not out of line with his attention to lot order by declining price in his mini-auctions.[25] Moreover, indefatigable as he was, and ever confident that well-chosen collections of fine paintings were bound to retain their value even if other investments suffered, we also find him, in 1792, advocating a new sort of Monte di Pietà – he called it a 'Lombard des Arts' – to provide ready loans against paintings as surety.[26] This is precisely what we would expect as a practical extension of his remarks in the Poullain catalogue of 1780.

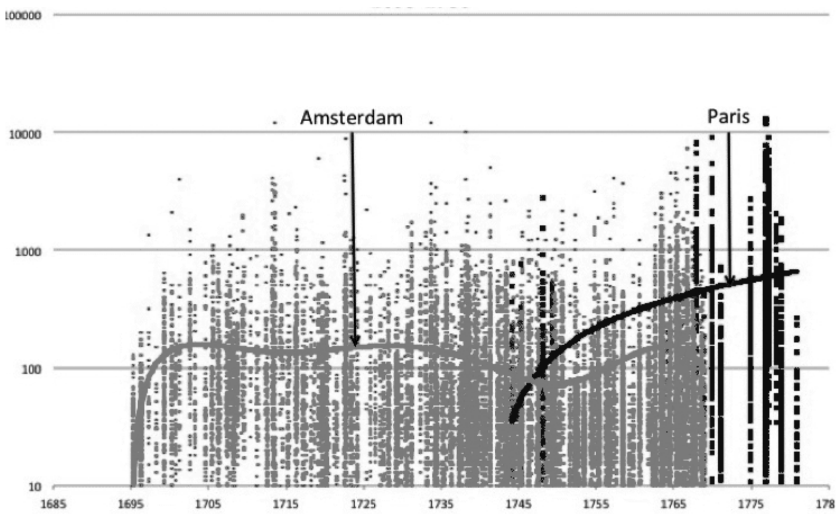
Low-risk, cross-border arbitrage in paintings

To this point we have focused on Paris auctions, but in one important respect the ring was part of a larger scheme even in the 1780s. For many decades Lebrun and some of his contemporaries made repeated trips to other countries, buying up paintings relatively cheaply which they then resold in Paris at higher prices. Lebrun was not alone among dealers in making such trips; nevertheless, the 43 such excursions he claimed to have made in a letter to Napoleon in or around 1802, was unusually high.[27]

This sort of activity may be thought of as low-risk arbitrage. For Lebrun, certainly in the 1780s, it was low risk in that, with the backing of the ring, he could exercise selective control of the prices attained in Paris sales, especially those he himself directed. It was arbitrage in the strict sense that in each transaction the same asset (indeed, the very same painting) was involved, though at two locations, such as Brussels and Paris, where there was a reasonable expectation that a difference in prices – purchase price in the one location, sale price in the other – would prevail.

The general potential for this sort of arbitrage can be illustrated for the period up to the mid-1770s, using a database constructed from the Hoet-Terwesten annotated records of 18th-century auctions, complemented by sales of the Parisian dealers Gersaint, Remy and Lebrun (father and son). If sales in Paris and Amsterdam are isolated, as in Figure 7.3 below, there is a marked difference in moving average prices per sale between the two locations. While this particular database for Amsterdam ceases just as 'our' Lebrun (the son) was emerging as an independent force in the market, it is highly likely that the price difference captured in Figure 7.3 was sustained, especially given the position of influence he carved out for himself, and because he kept up his buying trips prior to and after 1789. These trips are known to have encompassed Brussels, Antwerp and Amsterdam.

Still, our illustration is only an aggregative one: the summary price lines are averages. What really is needed is a database of price histories for individual paintings, including price at a foreign source and in a subsequent sale in Paris. As with his promotion of paintings as an asset, so in the case of foreign paintings, Lebrun backed his trading practice with persuasive views about the particular properties of these paintings



Note: Prices in guilders
Source: Sales data HOET-TERWESTEN; GERSAINT 1744-1750; REMY & LEBRUN 1755-1780; Elliott HAUSER, Kiril ZUGANOV, Sandra VAN GINHOVEN & Hillary Coe SMITH. Duke Art, Law and Markets Initiative (DALMI) Database, Duke University, 2011.

Figure 7.3 Actual and average prices per lot, Amsterdam and Paris sales, 1695–1780

and their desirability.[28] Limitations notwithstanding, the underlying reality behind Figure 7.3 is that dealers such as Lebrun had complete control over what they chose to bid for *abroad*, and the maximum bids they would submit in foreign auctions, not merely reasonable control over lot ordering and revenue and, though in lesser degree, prices, at re-sale in Paris. Thus returns on repeat sales where foreign purchases were part of the transaction ought to have been markedly above and more certain than those turned up in our probe, reported earlier, where both initial price and re-sale prices were for paintings auctioned in Paris.

Conclusions

We have argued, largely on the basis of evidence found by Charlotte Guichard, and in part Mercier's contemporary observation, for the existence in 1780s Paris of a close-knit ring, with a complementary credit circuit (overlooked by Mercier, who had other complaints against the dealers). This ring, with its credit arm, made possible prices higher than in a cash-only sales environment. An additional necessary condition for higher prices to have prevailed – and for already high prices to have risen even further, namely the presence of wealthy collectors open to considering painting also a profitable investment opportunity – was also fulfilled, certainly in the case of financiers. A third precondition, a leader able to elicit and cultivate a taste for fine paintings among that group, all the while orchestrating revenues at public sales, was met in the person of Lebrun.

None of these necessary conditions, singly or together, allows us to claim that we can explain prices in Paris in the 1780s. Nor does our limited exploration of price histories of individual paintings enable us to set very much store by Lebrun's claim that paintings were a good investment, except in the case of paintings bought in the Low Countries and re-sold in Paris, the particulars relating to which, however, have not been assembled. In all strictness, then, we may claim only that prices in the 1780s ought to have been and probably were a little higher with the ring than without. Unfortunately, that counterfactual is untestable; nevertheless, much may be learned by narrowly focused further research on the cross-border movement of paintings at auction.

Postscript

Despite its limitations our narrative resonates in intriguing ways with aspects of behaviour in present-day markets for Old Master, Post-Impressionist, and Modern and Contemporary paintings. Not that history repeats; we note some similarities as a matter of interest, though more to highlight differences than to suggest replication of the 1780s in current markets.

Several parallels exist, including the influence, (a) of *rarity* (not surprisingly most evident in the Old Masters market, though also in other markets, especially in the case of pieces recognisably by a deceased artist of established reputation) and (b) of *wealth*. Just as we assume financiers dominated the resale market in Paris in the 1780s, so high-net-worth individuals have disproportionate influence over prices at the high end of whatever contemporary markets they enter.[29] There is also, (c) *increased blurring* – though in different ways, then and now – of the roles of dealers and auctioneers. In 1780s Paris, the blurring was at the initiative of dealers; recently it has involved auction houses taking over dealerships and in other ways (e.g. increased numbers of exhibition sales; and a larger share of revenue sought through private treaty sales) fashioning themselves more like dealers. Differences aside, however, the motivation is the same: to increase control and thus chances of survival.

It is also striking how close Lebrun and his associates came to recent efforts to promote paintings as an asset. The credit arm of the ring enabled those involved to trade on a larger scale than if purchases required cash and to win by bidding up against private buyers, as well as, in principle, establishing a public record of high current and rising prices at resale. The same control also contributed, at the Paris end, to implementing the conditions for low-risk, cross-border arbitrage. Efficient global markets have virtually eliminated that sort of opportunity, but there is a closer parallel between Lebrun's *Lombard des Arts* scheme and the recently increased willingness of banks to lend against paintings, albeit, probably, on terms less favourable than he envisaged. The attempts by contemporary auction houses to secure third-party guarantors is another risk-containing move, though limited to lessening the downside risk at auction rather than giving auction houses the same control over winning bids at the high end as Lebrun and the ring sought to procure. Recent moves to the end of securitising paintings, including art funds, are still in their infancy but go beyond anything imagined, much less implemented, in the 1780s.

An ironic aspect of the differences between control over costs and returns then and now is that perhaps the oldest surviving of contemporary art funds, The Fine Arts Fund, lowers costs and raises returns precisely by focusing almost exclusively on private purchases and sales, bypassing dealers and auctions. More ironic still is that, as noted, private treaty sales are increasingly favoured by auction houses themselves.

In relation to Lebrun's actual pitch to investors, we find no support from resale prices in one – albeit important – auction he organised, for the claim that paintings could be relied upon to generate an attractive, *short run* return, though we found modest evidence for gains in the medium term, just as he argued should occur. Control over purchase prices abroad should have strengthened the claim, a possibility testable if data were assembled on repeat sales directly involving paintings required abroad. High-end dealerships now established in multiple countries, in principle also constitute test cases, though not in fact as long as purchase and sale prices are not revealed.

Interestingly, the pleasure dividend as compensation for modest investment returns in fine paintings is once again attracting attention, attested to both by the declared motivations for buying stressed in answers to questionnaire surveys addressed to wealthy collectors and in terms of what a plausible reading of US trade data reveal.[30] Art funds that both display paintings acquired and allow participants to rent them supply yet another link back to Lebrun's focus on the pleasure of living with paintings, quite independent of any asset return potential they may have.

---

1 We are grateful, for constructive conversations and preliminary data analysis, to Donna Budman, Sandra Van Ginhoven, Jean-Marc Goguikian and Genevieve Werner. Thanks also to Hilary Coe Smith for allowing us to use her database of 29 annotated catalogues of Lebrun sales in the 1780s. Anna Dempster, Sophie Raux and Christophe Spaenjers gave us helpful comments on draft versions. Special thanks to Charlotte Guichard for allowing us to draw freely on her unpublished research and to Federico Etro and Ben Mandel for a series of probing questions, not all of which we were able to answer with the available information, but which made us re-think multiple aspects of our narrative.

2 Guichard's findings in part confirm things long sensed, but she is the first to make available a structured account based on an expanded pool of evidence. See her 'Small Worlds: The Auction Economy in the late Eighteenth-Century Paris Art Market,' forthcoming in Neil De Marchi and Sophie Raux (eds) *Moving Pictures:The European Trade in Visual Imagery, 1400–1800* (Turnhout: Brepols, 2014).

3 Louis-Sébastien Mercier, 'Ventes par arrêts de la Cour. Encan'. *Tableau de Paris*, modern edition [order of pieces rearranged] (Paris: Mercure de France, 1994 [1781–1788)), vol. II, pp.109–112. The English translation is from Brian Learmount, *A History of the Auction* (Frome and London: Barnard and Learmount, 1985, p.60), italicised phrases in the original.

4 Some private buyers must have been formidable competitors. One such identified by Guichard as a regular at the sales was François-Pascal Haudry (1728–1800), President of the Orleans Chamber of Finance, Administrator of the Orleans School of Design and Director of the *Manufacture de Sèvres*.

5 Haudry attended 10 of Lebrun's sales in the 1780s and left a collection of 158 meticulously annotated sale catalogues.

6 Mercier also gives an overview of bankruptcy: *Tableau de Paris*, vol. II, pp.52–56.

7 For details of how this could work to the advantage of one dealer, Jacques Lenglier, see Patrick Michel, *Le Commerce du tableau à Paris dans le seconde moitié du XVIIIe siècle* (Villeneuve d'Ascq: Presses Universitaires du Septentrion, 2007), pp.67–68.

8 Ibid.: pp.85–86. Lebrun was not alone among dealers in being frequently in need of credit.

9 Guichard counts among core members Lebrun, his brother and stepfather, Jacques Lenglier and Vincent Donjeux, the former at least often in debt (ibid.:69) and both, together with Lebrun, said by Michel to have been joint masters of the art market from the late 1770s on (ibid.: pp.85). The 'masters' list also includes Alexandre-Joseph Paillet, Lebrun's main rival, but also, like him, often in financial difficulties and dependent on credit (ibid.: pp.93–94). Although he was also a rival, Paillet was financially supported by Lebrun plus his stepfather, Lenglier and Donjeux, in an early misconceived investment, a partnership with the younger brother of Mercier (ibid.: p.61). To this short list probably should be added the dealers Hamon, who attended most of Lebrun's sales, and Jean-François Debérreyter, whose signature is on credit notes of the ring. Michel's *Le Commerce* contains useful details on all these persons.

10 The larger context is that Paris collections grew from 150 in the period 1700–1720 to more than 500 in the four decades preceding the Revolution. See Krysztof Pomian *Collectors and Curiosities: Paris and Venice, 1500–1800* (Cambridge: Polity Press, 1950, pp.159–160).

11 *Le Commerce*, pp.37, 86 and 'Le tableau et son prix à Paris, 1760–1815,' in Jeremy Warren and Adriana Turpin (eds), *Auctions, Agents and Dealers. The Mechanisms of the Art Market 1660–1830* (Oxford: The Beazley Archive and Archaeopress, 2007, pp.53–68).

12 For a classic characterisation of the financiers see Henri Sée, *Economic and Social Conditions in France During the Eighteenth Century*, trsl. Edwin H. Zeydel (New York: Crofts, 1935), Ch. X. For a more recent overview, stressing the speculative aspect of many of the investments of *financiers*, see Roger Price, *An Economic History of Modern France, 1730–1914* (New York: St Martin's Press, 1981), especially pp.142–146 and 153–154.

13 Sée, *Economic and Social Conditions*, p.196, alludes to the links between the financiers and collecting (or, more broadly, the material evidences of good living), noting that Rousseau had shown that 'the arts were practiced *only* in the interest of this wealthy class' (italics added). Michel adds that Lebrun tried to conquer this new clientele in part by matching them in their extravagant lifestyle: *Le Commerce*, p.86.

14 Ian Simpson Ross, *The Life of Adam Smith* (Oxford: Clarendon Press, 1995, pp.210, 214).

15 Smith, *The Nature and Causes of the Wealth of Nations*, vol.II of the Glasgow edition of the Works and Correspondence of Adam Smith, R.H. Campbell, A.S. Skinner and W.B. Todd (eds) (Indianapolis: Liberty Classics, 1981 [1776], pp.902–903, paragraphs 73–75).

16 Smith records that the tax farmers, as a class, were 'the richest in the country'. See *Lectures on Jurisprudence*, vol. V of The Works and Correspondence of Adam Smith, R.L. Meek, D.D. Raphael and P.G. Stein (eds)

9781472902900 Risk and Uncertainty in the Art World (927h) 4th pass.indd 144 13/01/2014 13:13:56

(Indianapolis: Liberty Classics, 1982, p.517, paragraph 275). See *Catalogue Raisonnné des Tableaux, Dessins, Estampes, Figures de Bronze & de marbre &morceax d'Histoire naturelle . . . de feu M. Poullain* (Paris, 1780, vii–xvi).

17 Benjamin R. Mandel, 'Art as an investment and conspicuous consumption good,' *American Economic Review* 99 (2009): 1653–1663, analyses the consumption return from paintings. His focus is on the envy value of owning costly paintings, but his model allows for other forms of consumption dividend, including the pleasure of living with them.

18 See De Marchi and Van Miegroet, 'The rise of the dealer-auctioneer in Paris: Information and transparency in a market for Netherlandish paintings,' in Anna Tummers and Koenraad Jonckheere (eds), *Art Market and Connoisseurship: A Closer Look at Paintings by Rembrandt, Rubens and their Contemporaries* (Amsterdam: Amsterdam University Press, 2008, pp.148–17). There we misleadingly referred to dealer-auctioneers, meaning dealers who also held auctions. But Lebrun was an *expert*, free to organise sales and run them, but not an *huissier-priseur*. For details see Guichard, 'Small Worlds,' and Michel, *Le Commerce*, esp. Chs 2 and 5.

19 Amaan Mitha, 'Optimal Ordering in Sequential English Auctions,' Duke University, Department of Economics, thesis for Honors with Distinction, 2012.

20 In supply and demand terms, Lebrun's case for increasing prices of fine paintings over the medium-to long term is very clear. It comes down to a leftward shift in the supply curve (vertical for unique objects) plus a rightward shift in the (normally shaped, downward-sloping) demand curve, so that the equilibrium moves northwest with respect to its starting position and the market-clearing price rises.

21 See Jolynn Edwards, 'The Conti sales of 1777 and 1779 and their impact on the Parisian art market'. *Studies in Eighteenth Century Culture*, 39: 77–110 (see p.79 and note 8 in particular).

22 This is strongly emphasised in Edwards' 'The Conti Sales'.

23 We used simple annual average gains because paintings generate no re-investible dividend.

24 Cited by Patrick Michel, 'Le Tableau et son prix,' pp. 63 (in French) and 67 (in English).

25 In an appearance before the revolutionary Temporary Committee on the Arts, at a moment when artists were questioning the need for intermediaries, Lebrun, referring to a case he treated as illustrative, boasted that he had obtained 33,000 livres for some heirs in a sale when they hoped for no more than 12,000. Guichard recounts the story in full in 'Small Worlds'.

26 Michel, *Le Commerce*, p. 182.

27 The letter is cited by Francis Haskell, *Rediscoveries in Art: Some Aspects of Taste, Passion, and Collecting in England and France* (Oxford: Phaidon, 1980), p.29; see also note 44, p.184.

28 For a typical entry from one of Lebrun's catalogues see De Marchi and Van Miegroet, 'The Rise,' p.155, right-hand photograph.

29 Perhaps the most striking result to emerge recently is that based on a long-term study of (mainly) UK art prices, and UK incomes (as proxy for wealth). William N. Goetzmann, Luc Renneboog and Christophe Spaenjers, 'Art and Money,'*American Economic Review, Papers and Proceedings*, 101 (2011), pp.222–226, find that, historically, a 1 per cent rise in the top 1 per cent of incomes generated a 10 per cent increase in art prices.

30 See, respectively, Barclay's *World Wealth Survey* for 2012 and Benjamin Mandel, 'Investment in visual arts: Evidence from international transactions,' November 2010 version of a Working Paper, Division of International Finance, Board of Governors of the Federal Reserve System, Washington DC.