

**EVIDENCE OF AUCTION HOUSE INFLUENCE OVER BUYER
BEHAVIOUR AND PRICE FORMATION IN THE AUSTRALIAN ART
AUCTION MARKET**

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Abstract

During the last twelve months, there has been much discussion in the general and arts media about the manifestation of problematic practices within the Australian art auction market. Although the nature of these practices has been scrutinised, scant attention has been paid to how the methods and mechanisms employed by auction houses to build business during the art market boom that commenced in the late 1990s might represent a force that could undermine the sustainability of the market. Fundamental to this is quantifying the extent to which auction houses are able to influence market development. In this paper, I present empirical evidence that suggests that major Australian auction houses can exert significant control over buyer behaviour and price formation.²

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² I would like to acknowledge the invaluable support of Dr. Christopher Marshall, of the University of Melbourne and to express my gratitude for the guidance and direction he has offered me in the course of my research. Thanks are also

Introduction

In 2008, practices that were allegedly adopted by auction house proprietor, Rod Menzies, to promote his auction business' best interests were the subject of an investigative report published in *Australian Financial Review (AFR)* by journalist Pamela Williams, and a Four Corners program, *Art for Art's Sake*, which was screened on the ABC.³ It was alleged that these practices had the potential to distort the sales figures at Menzies' auction houses and stimulate prices for particular artists and specific artworks, while artificially boosting overall market confidence in particular market sectors.

Placed under scrutiny were a number of practices purportedly undertaken by Menzies and his auction businesses. It was alleged that Menzies, who is a major art collector in his own right, had not disclosed when he was selling artworks in which he had a financial interest through one of his auction houses. This is important information for a buyer as it signals where an auction house might have a vested interest in promoting one artwork over another. In the *AFR* report, Williams also reported instances where Menzies had been both the seller and buyer of high-profile artworks, such as Arthur Boyd's *Death of a Husband*; essentially, it was alleged that he had offered the artwork for

due to the anonymous reviewer who offered an invaluable and constructive critique of this paper. I also owe a sincere and warm debt of gratitude to Professor Neil De Marchi of Duke University, who has generously shared his insights about the economics of the art market with me and offered detailed and rigorous criticism that has helped shape my thinking about economic theory and how it applies to the art market. John Furphy of the *Australian Art Sales Digest* also generously offered me publicly inaccessible data about the Australian art auction market that I used to construct Figure 1 in this paper.

³ For the original documents: P. Williams, 'Exposed: How artful Menzies pulls auction house strings' (2008), in *The Australian Financial Review*, 26 June, 1, 60-1. Australian Broadcasting Commission, 'Art for Art's Sake' (2008), *Four Corners*. For subsequent media coverage: G. Coslovich, 'Art auctioneer faces inquiry' (2008a), in *The Age*, 6 September, 9; G. Coslovich, 'Doubts stay as Menzies alters fine print' (2008b), in *The Age*, 12 August, 14; P. Coster, 'Sparring with Rod Menzies', (2008b), in *Herald Sun*, 22 May; P. Coster, 'Art market ethics' (2008a), in *Herald Sun*, 3 July; C. Perkin, 'Art auction row goes to ACCC', (2008a) in *The Australian*, 30 July; C. Perkin, 'Menzies' plan of auction', (2008b), in *The Weekend Australian*, 30 August, 28; P. Williams, 'Art auction rivals hammer for transparency' (2008a), in *Australian Financial Review*, 11 August, 68; M. Wilson-Anastasios, 'There's an art to forcing up auction prices' (2008), in *The Age*, 1 August, 15.

sale at auction, and then bought it back himself.⁴ If this did occur as reported, this would have boosted the sales totals for Menzies' auctions. It also served to avoid 'passing-in' a major work of art. This is an important point because there is a perception within the marketplace that a major artwork is 'burned' if it fails to sell at auction, making it more difficult to sell in the future.

Also at issue was the practice of offering sellers of major artworks a 'guaranteed' minimum price if they consigned their work for sale at one of the Menzies Art Brands (MAB) auctions. If the guaranteed price is not reached at auction, the auction house is obliged to pay the seller the guarantee, and the artwork becomes the property of the auction house itself. This practice is not uncommon in the international art auction market, but it caused concern here when it was alleged by Williams in *AFR* that Menzies himself, sometimes in partnership with other agents, was offering MAB clients guarantees. Further, although it was specified in the terms and conditions in Menzies' catalogues that a symbol would be used in the catalogue description to signify when an artwork was being sold subject to a guarantee, Williams found examples where a guarantee had been offered, but the symbol was not printed in the catalogue entry. For a potential bidder, it is important to know when a guarantee has been offered because it signals that the auction house has a very strong vested interest in ensuring that the artwork reaches a set minimum price. Although that could also be said for reserve prices - if the reserve price is not met, the artwork will not sell and the auction house will not receive any commission - in the case of a guarantee the impetus to sell is far greater because the auction house will potentially be liable for the entire cost of the work of art. Further, it was claimed that when MAB was compelled to pay a client the agreed-upon minimum price, that price entered the auction record and MAB sales reports as 'sold', even though, to all intents and purposes, the artwork had failed to sell.

⁴ P. Williams, 'Exposed: How artful Menzies pulls auction house strings' (2008), in *The Australian Financial Review*, 26 June, 61.

The question of provenance, which is an artwork's ownership history, as presented in MAB auction catalogues was also aired as a matter of concern. In the auction market, buyers look for works that are 'fresh' to the market; neglecting to include details of prior sales can boost buyers' valuations and so affect their bidding behaviour and the price that enters the auction record. Examples exist where artworks were offered for sale at auction with a provenance, or ownership history, that excludes references to prior auction sales. For example, *Study for Autumn (Near Bathurst)* by Brett Whiteley, was listed in the auction record as having sold at auction four times over a seven-year period through MAB auctions. Each of those sales should constitute a change of ownership. This should be recorded in the provenance, but none of the auction appearances were ever listed. Each time the provenance was listed as 'The artist's sister NSW inherited from the artist's estate.' In its fourth appearance in February 2007, 'private collection, Melbourne' was added. According to the 2007 catalogue, the painting had only changed hands once since leaving Whiteley's sister's possession.

Following the reports in the *AFR* and on Four Corners, a complaint was lodged with the Australian Competition and Consumer Commission (ACCC) by a small group of Menzies' peers in the art auction trade, including Tim Goodman of Bonhams & Goodman. Although the ACCC does not publicly discuss whether or not it is conducting an investigation, a report published in *The Age* by Gabriella Coslovich confirmed that Rod Menzies had appointed legal representation to advise him on the ACCC investigation.⁵ At the time of writing the outcome of the investigation, and the accuracy of the allegations made against Menzies, have yet to be determined.

An important question arising from the ensuing public debate is how the techniques used by auction houses including MAB to secure market share and maximize earnings might manifest in the auction record. Although it has not been addressed in a systematic manner elsewhere, the first step in

⁵ G. Coslovich, 'Art auctioneer faces inquiry' (2008), in *The Age*, 6 September, 9.

addressing this question is to determine whether these institutions exert influence over buyer behaviour and auction price formation. Do the practices that were identified as ‘problematic’ in the media, and which were the basis of the complaint to the ACCC, really matter in the long run?

In this paper I will present empirical evidence that measures whether the major Australian auction houses can affect buyer behaviour and price formation. In the first section of the paper, I briefly discuss the principles that underpin the art auction system, and the importance of the competitive bidding process as a price-setting mechanism in the eyes of buyers within the market. I then demonstrate that the Australian auction system is segmented into two-tiers; it is the ‘top-tier’ of auction houses that have exerted the greatest influence over market evolution during the boom that commenced in 1999. In the second part of the paper, I present evidence that shows how the activities of the major auction houses may have shaped the market and the auction record.⁶

Competition as a price-setting mechanism for unique objects

The auction system is used to sell art because, theoretically, it is difficult to set a price for an artwork that is ‘unique’. Where there is no immediate precedent that can be used as a reference point to establish a price, competition between bidders at auction determines an object’s value. The price is the highest amount that a bidder is willing to pay and that amount is legitimised by the valuations of the losing bidders as expressed by the bids placed in the auction room. As explained by economists R Preston McAfee and John McMillan:

⁶ This paper is based on research undertaken towards the completion of my PhD thesis, *Art at auction: Price formation and the creation of superstars in the art auction market*, submitted for examination at the University of Melbourne in December 2008.

One of the remarkable and important features of the [auction] price system is its ability to convey information efficiently.... With perfect competition, the price is equal to the true value even though no individual in the economy knows what this true value is.⁷

Economic theory shows that for an auction to be effective as a price-setting mechanism, it must be characterised by perfect competition.⁸ According to economic theory, the accuracy of auction values is proportionate to the number of bidders.⁹ Most importantly for a consideration of the potential impact of the techniques employed by auction houses in Australia and internationally to increase their market share, the auction system requires that genuine and unrestricted competition between multiple bidders is responsible for generating prices. If activities within the marketplace undermine or restrict competition, then the prices that emanate from the system will not reflect genuine levels of demand. These prices then enter the auction record and become precedents for future prices. This is relevant to the question at hand because, as I will show, buyers in the art market tend to accept price as an indicator of quality, and their behaviour at auction reflects that acceptance.

Buyer responsiveness to auction prices and auction house activities

At auction, buyers tend to believe that prices are validated by the actions of competing bidders. In the art auction market, for buyers who are uncertain of their own ability to discern ‘good’ art from ‘bad’ art, the apparently impartial affirmation provided by the competitive process of price-setting at auction is taken as an indicator of quality.

⁷ R.P. McAfee & J. McMillan, 'Auctions and bidding' 1987, *Journal of Economic Literature* 25(2), 699-738. 721. Also: O. Ashenfelter & K. Graddy, 'Art auctions' in V. A. Ginsburgh & D. Throsby (eds), *Handbook of the economics of art and culture*, (2006) 910-45.

⁸ McAfee & McMillan, above n 3. R.J. Weber, 'Multiple-object auctions' in P. Klemperer (ed), *The economic theory of auctions* (2000) 240-66.

⁹ R. Wilson, 'A bidding model of perfect competition' (1977) 44 *Review of Economic Studies* 511-18.

Commercial art dealers are aware of buyers' reliance on auction prices as important points of reference, even when acquiring work from the art gallery system. As observed by New York dealer Joan Washburn: 'auctions do give people confidence when they see the prices that works of art can achieve.... Sometimes the public is fearful of the mysteries of an art gallery.'¹⁰ Historian Peter Watson described an incident that illustrates this phenomenon, but which otherwise seems to defy economic reason: a collector was approached by a dealer with a collection of paintings priced at US\$600,000-700,000. The collector decided not to acquire the artworks. The dealer then offered the same paintings for sale at auction a short time later, where the same collector purchased them for US\$1,700,000. The collector had been unwilling to rely upon his own capacity to independently determine the value of the paintings, and was comfortable paying a higher price at auction because he believed the bidding process validated that price.¹¹ Watson explained the reasons for this in his book, *From Manet to Manhattan*:

... [art auctions] are public events and therefore legitimizing authorities. A dealer might sell you privately a work by a complete charlatan. An auction sale, on the contrary, is an open process, and that is reassuring to many people.¹²

In the Australian art market, consumers have an immense range of choices; in 2003, economists David Throsby and Virginia Hollister found there to be 9300 practising artists in Australia.¹³ But of that number, only 16% have an auction record of any note; 69% of them have never sold a single work of art at auction.¹⁴ The great majority of practising artists will never attract prices at auction

¹⁰ L. De Coppet & A. Jones (eds), *The art dealers* (1984) 67-8.

¹¹ P. Watson, 'Investing in ignorance', (1989), in *The Spectator*, 18 March, 35-6.

¹² P. Watson, *From Manet to Manhattan: The rise of the modern art market* (1993), 431.

¹³ D. Throsby and V. Hollister, *Don't give up your day job: An economic study of professional artists in Australia*, (2003).

¹⁴ M. Wilson-Anastasios, *Art at auction: Price formation and the creation of superstars in the Australian art auction market*, (2008), 21.

that will allow collectors to recoup the original purchase price of an artwork acquired through a gallery, far less to realise a profit. This is an important factor for buyers who are mindful of an artwork's investment potential. To realize an investment there must be a means of liquidating, or reselling, that asset. The auction market, through which most secondary-market, or second-hand, sales of art are conducted, is the principal forum in which an artwork can be resold. But in the Australian auction market, often two artists with similar levels of career achievements are differentiated only by the prices their work attracts. This is significant because in his important study of the commercial art gallery system, *Talking Prices*, Olav Velthuis found that art buyers tend to interpret price as an unambiguous indicator of artistic value.¹⁵ If buyers believe that the highest prices indicate which is the 'best' artist, demand will concentrate on that artist's work and in a competitive market such as the auction market, this can fuel herd behaviour.¹⁶

When forming their valuations prior to bidding, empirical evidence suggests that buyers rely on prices transmitted through the auction record and via the catalogue estimates published by the auction houses. Economists Jianping Mei and Michael Moses show that, more often than not, people accept auction houses' estimates as real indications of an artwork's value.¹⁷ Buyer responsiveness to price as recorded by Mei and Moses may be partly attributable to price signalling. 'Signalling', as described by Nobel laureates Michael Spence, George Akerlof and Joseph Stiglitz, is a general economic theory that proposes that price is an important factor for consumers in a marketplace where quality is difficult to determine and there is an asymmetrical distribution of information amongst market participants.¹⁸

¹⁵ O. Velthuis, *Talking prices: Symbolic meanings of prices on the market for contemporary art* (2005).

¹⁶ This pattern has been observed in the stock market, where investors assume that the 'best' stocks will also be the most expensive, even in the absence of any substantiating evidence. R. Shiller, *Irrational exuberance* (2000), 152.

¹⁷ J. Mei & M. Moses, 'Art as an investment and the underperformance of masterpieces' (2002) 92(5) *The American Economic Review*, 1656-68.

¹⁸ J.E. Stiglitz, 'The causes and consequences of the dependence of quality on price' (1987) 25 (March) *Journal of Economic Literature*, 1-48.

Marketing theory also shows that price becomes the principal indicator of quality for buyers when it is difficult for anyone other than an expert to determine which product is 'better'. Describing the market for consumer goods such as skin-care products, Neil Dorward observes: 'when consumers have very little information on the product, they tend to regard price as an index of quality.'¹⁹ As described by Stiglitz, under these conditions: 'price serves a function in addition to that usually ascribed to it in economic theory: it conveys information and affects behaviour.'²⁰

Buyers at auction tend to accept auction house assessments of value, and prices generated by the auction system, because they have faith in the expertise and authority of the people who set the prices. In a market where impartial and reliable information about the product being sold is difficult for consumers to obtain, expert opinion carries great weight with buyers. Psychologists Solomon Asch, Morton Deutsch and Harold Gerard have documented the power wielded by authority figures over human decision-making processes.²¹ This holds for investor behaviour in the stock market where, through accumulated experiences acquired by observing outcomes when they ignore expert opinion, economist Robert Shiller has found that people have 'learned that when experts tell them something is all right, it probably is, even if it does not seem so.'²² They therefore tend to believe expert opinion even where it contradicts their own assessments or common sense. In the art auction market, economists Orley Ashenfelter and Kathryn Graddy have also found a correlation between auction house authority and the establishment of prices: 'the auction institution itself, with commissions, experts, pre-sale estimates, reserve prices, and sequential sales, can have a profound influence on the price of art.'²³

¹⁹ N. Dorward, *The pricing decision: Economic theory and business practice*, (1987), 128.

²⁰ Stiglitz, above n 14, 3.

²¹ M. Deutsch & H. B. Gerard, 'A study of normative and informational social influences upon individual judgment' (1955) 51 *Journal of Abnormal Sociology and Psychology*, 629-36.

²² Shiller, above n 12, 150.

²³ Ashenfelter and Graddy, 2003, p.776.

This is what we would expect if art buyers find it difficult to obtain useful information to allow them to differentiate between a ‘good’ buy and a ‘bad’ buy. But when price becomes the key indicator of quality within a marketplace, an information cascade can be set in motion that initiates herd behaviour amongst buyers. In his examination of the stock market, Robert Shiller describes this as a ‘naturally occurring Ponzi process’ that can generate speculative bubbles:

Investors, their confidence and expectations buoyed by past price increases, bid up stock prices further, thereby enticing more investors to do the same, so that the cycle repeats again and again, resulting in an amplified response to the original precipitating factors.²⁴

Positive feedback loops of this type occur in response to price increases, and this bolsters buyer confidence. Positive feedback loops accelerate change, whereas negative loops retard development. Some sociologists ascribe the inherent dynamism of social systems to the existence of feedback loops. In terms of Australian auction house practices, this calls into question the issue of regulation; the only way of neutralising instability in a financial market is to ensure that social institutions and regulations counterbalance the effect of positive feedback loops.²⁵ The lack of regulation in the Australian auction market means that the effect of these loops operate unchecked. This can manifest as price volatility, and volatility can undermine the sustainability of a market that relies upon maintaining buyer confidence.

Dominance of the ‘top-tier auction houses’

Evidence strongly suggests that the Australian auction system is segmented between the businesses that dominate the ‘top-end’ of the market, and other auction houses. This segmentation is apparent

²⁴ Shiller, above n 12, 44.

²⁵ Apparently random and chaotic evolution within natural systems is explained by biologists through reference to feedback loops. T. Baumgartner, T. R. Burns & P. Deville, *The shaping of socio-economic systems* (1986), 10.

in the auction record, and can be inferred both from the total value of sales they generate, and divergent prices for individual artworks. Neil De Marchi has documented a similar lack of homogeneity between top-tier and lower level auction sales in his important study of the paintings market in seventeenth-century London.²⁶ This market was, according to De Marchi, ‘segmented by quality and audience, and often by location of sale.’²⁷

Aggregate figures show that market growth during the boom that commenced in the late 1990s was not spread across the entire Australian market, but was restricted to its top-end. Figures 1 and 2 show the relative frequency of top-tier and lower level sales and the total revenue generated by those sales. Figure 1 shows that while the relative number of auctions staged at the three auction houses that dominated the market between 1999 and 2006, Sotheby’s, Deutscher-Menzies and Christie’s, remained relatively steady during the boom, the number of lower level auctions increased significantly. At the time of writing, the principal Australian art auction database, Australian Art Sales Digest (AASD), lists a total of 23 auction businesses other than the major auction houses operating in Australia.²⁸ Figure 2, however shows that the total revenue generated by the major sales has grown dramatically over the same period, compared with the total value of sales made at the other auction houses, which has remained fairly constant over the survey period. This means that although there were more auctions and, presumably, more artworks sold elsewhere in the auction system, there has been no significant increase in the amount of revenue generated outside the top-end of the market.

²⁶ De Marchi concludes that there was a distinction between the market sector that sold large numbers of decorative, low-price artworks and the part of the market that dealt in significant artworks that appealed to a more discerning group of elite buyers. N. De Marchi, 'Auctioning paintings in late seventeenth-century London: Rules, segmentation and prices in an emergent market', in V. A. Ginsburgh (ed), *The economics of art and culture: Invited papers at the 12th International Conference of the Association of Cultural Economics* (2004) 97-128, 101-13.

²⁷ Ibid, p.97.

²⁸ Christie’s ceased operating in Australia in April 2006. I include it in my thesis and define it as a ‘top-tier’ auction house as the bulk of my research was undertaken prior to that date and up until its closure, it was one of the top three Australian auction houses. <http://www.aasd.com.au/using01.cfm>, access date: 10 September 2008.

If the major Australian auction houses have dominated the market during the boom and been responsible for generating the significant growth that has occurred at the top of the market, and if many buyers look to the prices established at auction when deciding which art to buy, and what price to pay, it means that a great deal of power has resided in the hands of the people managing the top-end auction houses. The way these businesses are managed and the practices they use to conduct sales are therefore of great importance to the market and industry as a whole.

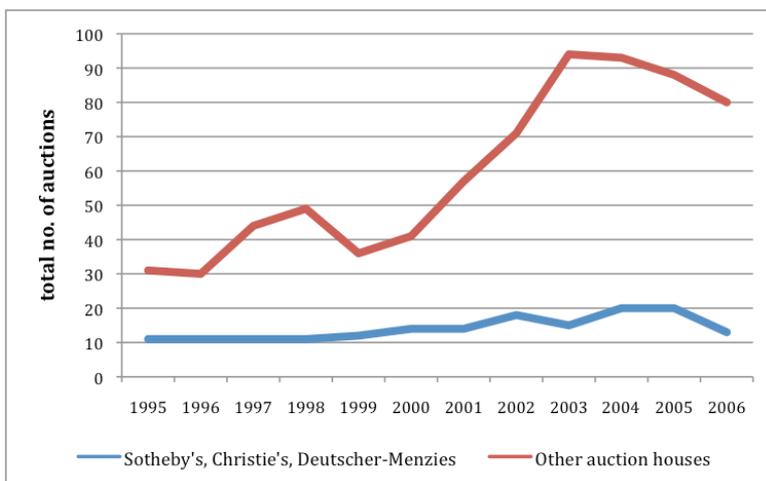


Figure 1: Number of top-tier and lower-level auctions held in Australia annually, 1995-2006.

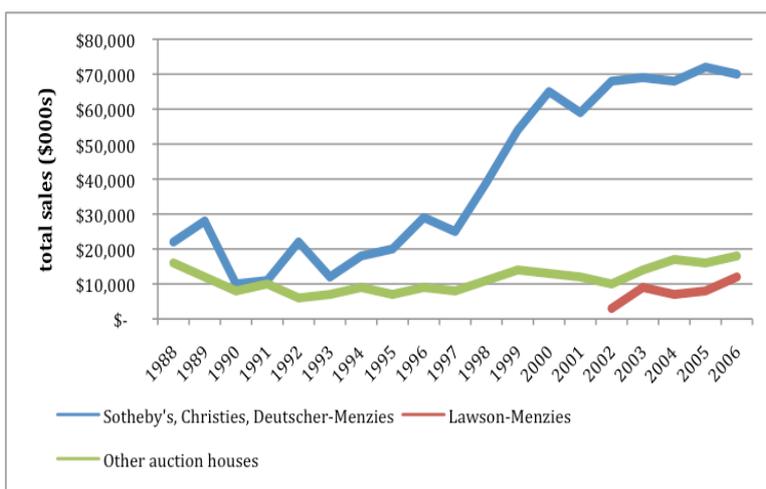


Figure 2: Total value of sales in Australia at top-tier and other auction houses.²⁹

²⁹ Lawson-Menzies is represented as a separate series in the chart due to its close relationship to the top-tier Melbourne-based Deutscher-Menzies (Sydney-based Lawsons was acquired by Rod Menzies and re-branded 'Lawson-Menzies' in 2001). The evidence of the close administrative relationship between the two, confirmed in 2007 by their unification as

Evidence drawn from the auction record

In the Australian market segmentation between the top-tier and lower level auction houses is not always based on quality. Price differentiation is not simply attributable to the likelihood that the ‘best’ artworks will invariably go to the major auctions. There can be a marked difference between prices for identical, or very similar, artworks sold at the top-tier and the lower level auction houses. The top-tier auction houses can generate higher prices as a matter of course, and not just because they secure the ‘best’, and so most valuable, artworks to sell. This is tacitly acknowledged within the industry. Informal discussions with many dealers during the course of my research confirmed that it is possible to make a livelihood simply by buying artworks at the lower-level auction houses, and reselling them a short time later at one of the major auctions. This not surprising; the larger auction houses are able to access a far larger audience through effective marketing and a greater resource base. More bidders will presumably result in higher levels of demand, enhanced competition, and higher prices. Regardless of the cause, this suggests that simply by selecting an artist or an artwork to include in a major sale, the dominant auction houses are able to generate higher prices for particular artists and even specific artworks.

Repeat sales of prints

In the Australian auction system, it is common for identical prints to sell for different prices within a short period of time at different auction houses. For example, Figure 3, which compares contemporaneous sales of the same prints by Charles Blackman at various auction houses, shows a

part of the ‘Menzies Art Brands’ group, means that it is difficult to classify Lawson-Menzies strictly as a top-tier or an ‘other’ auction house.

clear divergence between prices for the same artworks. Although the condition of an artwork can have a marked effect on its price, this is not the case in these instances, where the prints were all in excellent condition. This suggests that prices for identical artworks can be higher at the major sales as a matter of course.

artist	artwork	sale details	price
Charles Blackman	<i>Alice in the garden</i> , etching, 19 x 14.5 cm.	<ul style="list-style-type: none"> Amanda Addams Auctions, 26/10/03, lot 161 Deutscher-Menzies, 26/11/03, lot 340 	\$393 \$646
Charles Blackman	<i>Dream of the cat</i> , lithograph, 82 x 61.5 cm.	<ul style="list-style-type: none"> McKenzies' Auctioneers, 11/11/03, lot 148 Christie's, 27/8/03, lot 506 	\$500 \$1,997
Charles Blackman	<i>The singer (Orpheus Suite)</i> , 1998, offset lithograph, 67.5 x 89.5 cm.	<ul style="list-style-type: none"> Bruce's Auctioneers, 1/3/04, lot 30 Deutscher-Menzies, 8/12/04, lot 220 	\$731 \$1,920
Charles Blackman	<i>Victoria</i> , etching, 20 x 20 cm.	<ul style="list-style-type: none"> Leonard Joel, 2/9/04, lot P80. Deutscher-Menzies, 10/3/04, lot 425. 	\$495 \$1,080

Figure 3: Examples of identical prints sold during the same year at top-tier and lower level auction houses.

Internationally, economists James E Pesando and Pauline Shum have documented a similar price discrepancy for prints sold at Sotheby's and Christie's, where prices at Sotheby's consistently exceed the Christie's values.³⁰ In an earlier article, Pesando described as 'puzzling' the results that demonstrated that identical prints sold in New York consistently realised prices that were 54% higher than those attained in London just weeks later.³¹

David Boyd

An examination of the Australian painter David Boyd's auction record suggests that this pattern is not peculiar to the print market. Comparing artists' prices at the top-tier and lower level auction houses can pose a problem; major works would be more likely to appear at the major auctions as a matter of course, while the lower valued works would tend to go to the minor auction houses.³² This would invariably result in higher prices at the top-tier auction houses. But Boyd is an extremely prolific painter who has produced a large body of work that is physically and stylistic consistent and his paintings regularly appear at all levels of the auction market; so much so that his record was used by art market analyst Dr Roger Dedman as a standard measure in the compilation of the *Australian Art Market Movements Handbook*.³³

Examination of Boyd's auction record shows what can happen to an artist's prices when his or her work begins to appear with greater frequency at the major auctions. As shown in Figure 4, Boyd's

³⁰ J.E., Pesando, 'Art as an investment: the market for modern prints' (1993) 83(5) *The American Economic Review*, 1075-89, 1088.

³¹ Ibid, 1088.

³² In their study of the Australian art market, Higgs and Worthington commented on this phenomenon. H. Higgs & A. C. Worthington, 'Financial returns and price determinants in the Australian art market 1973-2003' (2005) 81(253) *The Economic Record*, 113-23. De la Barre, Docclo and Ginsburgh also proposed this as an explanation for the discrepancy between prices for similar artworks sold in New York and London, which consistently achieved prices that exceeded prices at Drouot in Paris. M. de la Barre, S. Docclo & V. Ginsburgh, 'Returns of impressionist, modern and contemporary European paintings 1962-1991' (1996) 35 *Annales d'economie et de Statistique*, 143-81.

³³ R. Dedman, *Christie's Australian art market movements handbook* (2001). Indicating Boyd's popularity and the scale of his auction market, between 1972 and 2004, 1646 of his artworks appeared at auction, and between 2000 and 2004, 90% of the artworks to appear at auction sold. I have calculated the overall average Australian auction market clearance rate as 70%.

prices changed little between 1987 and 1998. His prices then increased gradually between 1999-2003, which coincided with the first years of the Australian art market boom. But Boyd's prices jumped suddenly in 2003 and continued to rise significantly in the years that followed, from an average of just over \$5,000 in 2002 to almost \$25,000 in 2006. An examination of biographical and historical sources does not reveal any professional achievements or critical reassessments that might otherwise explain this sudden increase. The only event that occurred during this period was that a large proportion of Boyd's secondary, or auction, market was transferred to the top-tier auction houses: in 1999 and 2000, 18% and 20% respectively passed through the major auction houses; this figure rose to almost 50% in 2003.

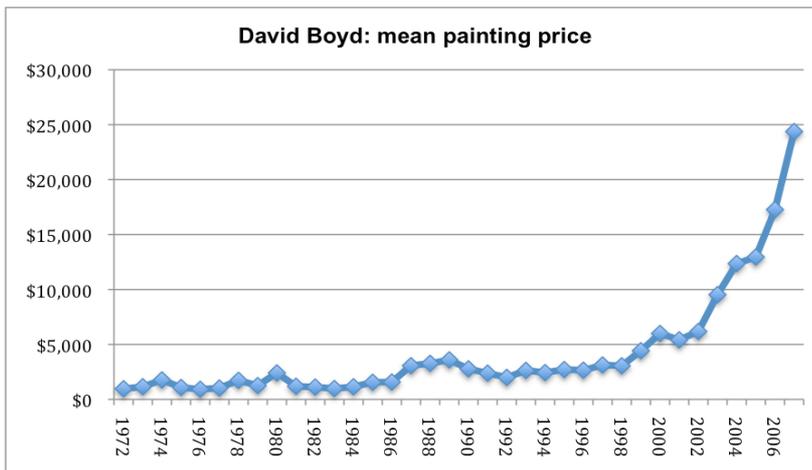


Figure 4: Average value painting by David Boyd sold at auction 1972-2007.

Figures also show that Boyd's average price per work was higher at the major auction houses than the lower level auctions. Figure 5 shows that Leonard Joel sold more of Boyd's work by volume than the top three auction houses but the average price per artwork was significantly lower. The three other lower level auction houses that sold significant numbers of Boyd's paintings, Archers, Australian Art Auctions, and Lawson's, generated similar prices to Leonard Joel. The Deutscher-Menzies average price was four and a half times greater than the Leonard Joel average. It is perhaps

not surprising that Deutscher-Menzies' prices were higher given that it was established in 1998 and so the overall average was not reduced by Boyd's earlier, lower prices. But this does not apply to the discrepancy between the prices at Leonard Joel, Christie's and Sotheby's; all of those auction houses have been selling Boyd's work since the early 1970s.

Auction house	Auction house type	Total value of work sold	Total number of works sold	Average value artwork sold
Deutscher-Menzies	Top-tier	\$890,583	74	\$12,034.91
Sotheby's	Top-tier	\$967,065	135	\$7,163.44
Christies	Top-tier	\$1,160,549	204	\$5,688.97
Archers Auctioneers	other	\$719,656	223	\$3,227.16
Aust. Art Auctions	other	\$543,648	200	\$2,718.24
Lawson's	other	\$401,606	148	\$2,713.55
Joel's	other	\$1,071,004	398	\$2,690.96

Figure 5: David Boyd: Total number of artworks, total value sold, and average value artwork sold at principal auction houses 1972-2005.

These figures suggest that although buyers could have acquired Boyd's work for lower prices at the lower-level auction houses, they were willing to pay more at the major auction houses. It is possible that they assumed that the work at the top-tier auction houses was 'better', so they were willing to pay more for it. Consequently, when most of the secondary trade in Boyd's work moved to the major auctions, his auction prices jumped suddenly and dramatically.

Why would buyers be so responsive to the endorsement of a major auction house? It is possible that the top-tier auction houses perform a 'filtration' function for many buyers in the market. The

artworks that make it into the major sales are accepted as superior to the works on offer at the lower level auctions without question. If buyers lack confidence in their own ability to make judgements about quality, they may rely upon the dominant auction houses to do this on their behalf. In this sense, the major auction houses could be described as the embodiment of the *juste milieu* and performing a function as the new Salon, just as impressionist painter Auguste Renoir described the 19th century French Salon:

I will try to explain why I send my paintings to the Salon. There are fifteen art lovers in Paris capable of appreciating a painter without the Salon. There are 80,000 who wouldn't buy a thing from a painter not exhibiting at the Salon.³⁴

Bill Coleman and Stanislaus Rapotec

The pattern described in David Boyd's record can be found in the records of other artists whose prices rose when their work made the transition from the lower level to the top-tier auction houses even in the absence of any other exogenous stimuli. This is particularly telling in the example of deceased artists for whom there is no immediately evident causal link with another factor, such as the staging of a major retrospective or the winning of a high-profile prize, that might otherwise explain the price increases. A comparison between the auction records for Stanislaus Rapotec (1913-97) and Bill Coleman (1922-93) provides a good illustration of this. Sydney-based Rapotec was one of the leaders of the Australian abstract expressionist movement. Coleman was a Melbourne-based popular painter of genre and still-life scenes who studied under prominent modernist, George Bell.

³⁴ R. Moulin, *The French art market: A sociological view* (1987) 12-13.

Figure 6 shows that before 2000, the two artists' prices corresponded closely. During that time, most of their work appeared at the lower level auction houses. But in 2000, Rapotec's *Approaching Wilcannia No 2* appeared at the Mertz dispersal.³⁵ The Mertz sale was notable for the extremely high prices it attracted, and Rapotec's work was no exception; it set a new record auction price for the artist.³⁶ Prior to that point, no Rapotec artwork had exceeded a four-figure sum at auction. This caused the sudden spike in his figures for that year. The sale initiated further interest from the other major auction houses in Rapotec's work in the years that followed and in 2001, Deutscher-Menzies sold a Rapotec painting for \$34,075 against an estimate of \$24,000-28,000.³⁷ This trend continued; four other paintings appeared at top-tier sales in 2001 with five-figure estimates.

Figure 6 shows that Rapotec and Coleman's prices diverged after this. As with Boyd, Rapotec's prices did not rise due to a critical re-evaluation of his status, or following a significant exhibition or publication. Rapotec and Coleman also both died well before these price increases took place, so higher prices were not a result of new professional achievements or developments (Rapotec died in 1997, Coleman died in 1993). But it did occur in conjunction with the transferral of a large part of Rapotec's trade to the top-tier auctions. Between 1987 and 1999, 16% of Rapotec's paintings passed through a top-tier auction house; between 2000 and 2006 this figure rose to 63% (Figure 7). Since the 1970s, only 13% of Coleman's work has sold at the top-tier auction houses. Figure 8, which distinguishes between Rapotec's sales at the different auction houses, shows that his average auction prices were also consistently higher at the major auctions.

³⁵ Harold E. Mertz was an American businessman who assembled a collection of Australian art between 1964 and 1966 with the assistance of the influential Australian art dealer, Kym Bonython. Mertz intended to exhibit the collection widely in America and to introduce Australian painting to his homeland. He donated the collection to the University of Texas at Austin in 1971; the University de-accessioned it in 2000 and returned it to Australia to sell. When the collection was sold at Christie's on 28 June 2000 it attracted keen attention and generated many record prices that exceeded the auction estimates.

³⁶ Price: \$25,300, estimate: \$10,000-15,000, Christie's, 28/6/00, lot 12.

³⁷ *Drawing at St. Peter's Square*, acrylic on board, 122 x 183 cm, Deutscher-Menzies, 9/5/01, lot 23.

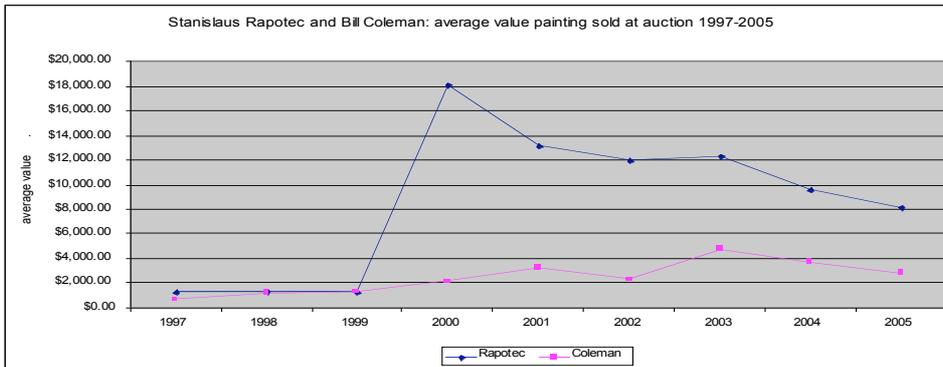


Figure 6: Chart comparing average annual values for paintings sold at auction 1997-2005 by Stanislaus Rapotec and Bill Coleman.

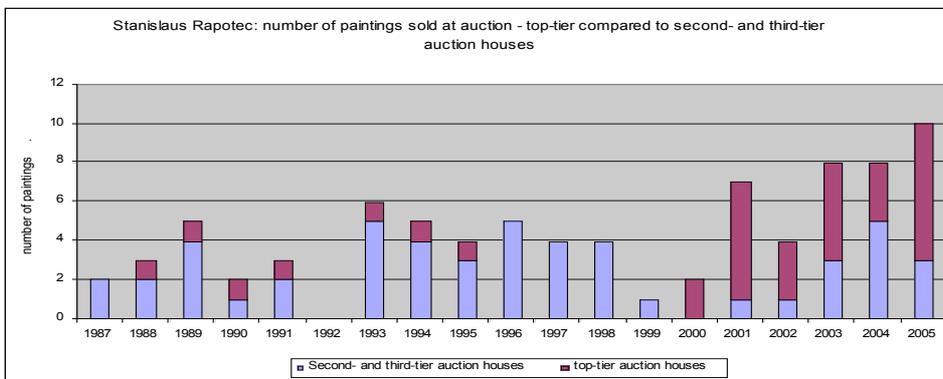


Figure 7: Number of paintings by Stanislaus Rapotec sold at auction 1987-2005 showing the proportion of sales made at top-tier auction houses compared to the number of sales made at lower-level auction houses.

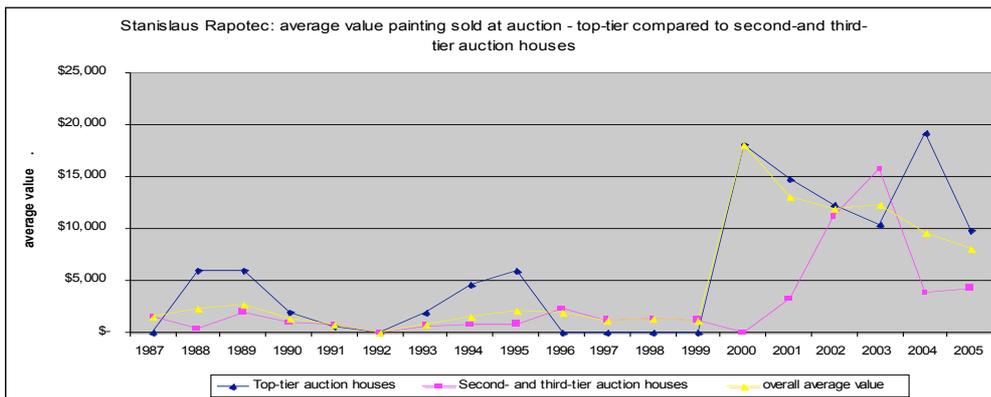


Figure 8: Average value painting by Stanislaus Rapotec sold at auction 1987-2005, comparing top-tier auction house averages to lower-level auction house averages.

Artists and auction houses

The above findings suggest that an artist's auction prices are more likely to increase when his or her work begins to appear regularly at one of the major Australian auction houses, and that the top-tier auction houses are more likely to attract higher prices for artworks as a matter of course. In some other instances, it seems that an association between particular artists and specific major auction houses may have contributed to the rise of an artist's auction prices.

Deutscher-Menzies

Prior to establishing Deutscher-Menzies with his then business partner, Rod Menzies, Chris Deutscher was an art dealer who represented several artists whose auction prices grew significantly during the boom including Peter Booth, Tim Storrier, Tim Maguire and John Brack. Figure 9 shows that Deutscher-Menzies dominated the market in these artists' work after its establishment in 1998. It is likely that Deutscher had an advantage over his competitors through his connections with the collectors who had acquired work through his gallery and with the artists and their families. Deutscher-Menzies' dominance of Brack's market is particularly notable. Brack had a strong auction record prior to Deutscher-Menzies' establishment; Christie's and Sotheby's have sold Brack's work since the 1970s and might otherwise be expected to have generated more sales.

Artist	auction house	total value of art sold	% of total market by value
Brack, John	Deutscher~Menzies	\$15,743,442	52%
	(Lawson-Menzies)	(\$1,122,555)	(4%)
Brack, John	Sotheby's	\$8,956,967	29%
Brack, John	Christies	\$3,524,835	12%
Booth, Peter	Deutscher~Menzies	\$1,020,821	47%

Booth, Peter	Christies	\$455,578	21%
Booth, Peter	Sotheby's	\$350,643	16%
Storrier, Tim	Deutscher~Menziess	\$3,213,008	34%
Storrier, Tim	Sotheby's	\$2,673,862	28%
Storrier, Tim	Christies	\$1,295,911	14%
Maguire, Tim	Deutscher~Menziess	\$2,184,833	53%
Maguire, Tim	Christies	\$982,546	24%
Maguire, Tim	Sotheby's	\$618,952	15%

Figure 9: Total value of art by artists formerly represented by Chris Deutscher, showing the relative totals sold at each of the top-tier auction houses. The figures for Deutscher-Menziess cover the period from their establishment in 1998 to 2007, and the figures for Christie's and Sotheby's cover the period from 1972 to 2007.

There is a strong coincidence between the establishment of Deutscher-Menziess and the expansion of Peter Booth's auction profile. Between 1989 and 1998, Chris Deutscher's dealership, Deutscher Fine Art, represented Booth. After Deutscher established Deutscher-Menziess, Booth's auction prices grew rapidly. Between 1998 and 2007, almost half of Booth's auction revenue was generated by Deutscher-Menziess. Although Booth is a critically acclaimed artist, Figure 10, which shows the total value of annual auction sales of Booth's work, shows that prior to the establishment of Deutscher-Menziess in 1998 Booth's auction profile was modest.

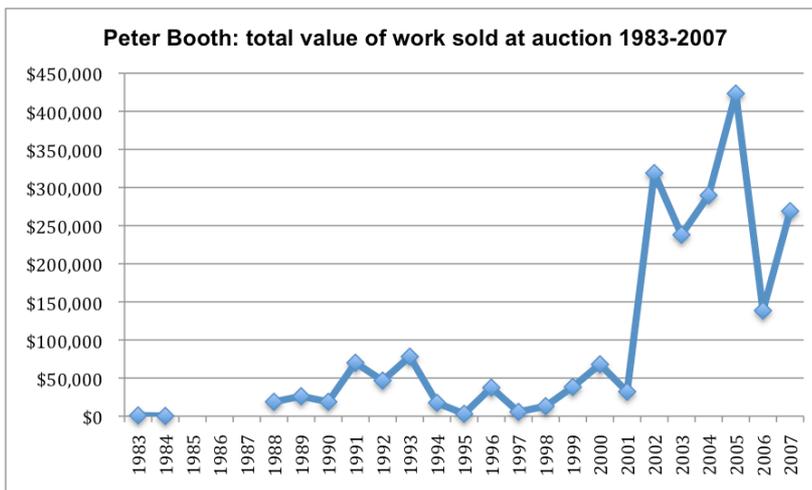


Figure 10: Peter Booth: total auction sales revenue 1983-2007.

The importance of Deutscher’s network to the sale of Booth’s work and promotion of his auction profile was illustrated by an incident documented in the ABC television series, *Art house*.³⁸ The documentary recorded the passage of a number of artworks through Deutscher-Menzies’ and Christie’s sales. Although in the documentary Deutscher-Menzies’ representative, Damian Hackett, expressed concern that the reserve set for one of Booth’s works in the Deutscher-Menzies auction, *Painting (figure with hands on the ground)*, may have been set too high, the painting did sell at auction for \$79,312 to a collector, Leigh Strachn.³⁹ Strachn made the purchase with the assistance of an art consultant, Karen Woodbury. Woodbury, a former Deutscher-Menzies staff member. At the time of the sale, *Painting (figure with hands on the ground)* was the second highest auction price for a Booth painting. Since then, many Peter Booth works have passed through Deutscher-Menzies, and it is common to see reference to Deutscher’s former art dealership, ‘Deutscher Fine Art’, in the provenance.

³⁸ The documentary was filmed in the lead-up to the September 2003 auction series. L. Matthews, *Art House* (2004).

³⁹ *Painting (figure with hands on the ground)* was sold at Deutscher-Menzies, 2 September 2003, lot 50, estimate: \$50,000-60,000. Only one work by Booth had been offered at auction with a higher estimate. *Painting (devil and laughing man)*, arguably one of Booth’s most important paintings, sold for \$176,250 against an estimate of \$150,000-200,000 in 2002. Christie’s, 25/6/02, lot 78.

Christie's Contemporary

In 2000, Christie's Australia launched its Contemporary Art Department under the management of Annette Larkin. This distinguished it from Sotheby's and Deutscher-Menzies, which incorporated contemporary art into their regular auctions.⁴⁰ Many of the artists featured at Christie's Contemporary sales had no established auction record. The auction house's endorsement of the artists, signified by inclusion in its major sales, and the prompts given to buyers in the form of auction estimates were a key source of information for buyers seeking to formulate a valuation.

Christie's used specific parameters to define the artists considered suitable for inclusion in its contemporary sales:

...aged between 35 and 50 years who are addressing contemporary issues about the world in which we live through minimalist, postmodern and conceptual art.... Artists who are creating beautifully made art right now... they look at the world, life, religion, sex with contemporary ideas.⁴¹

Annette Larkin was enthusiastic in her support of this new generation of artists.⁴² She spoke of the new buyers Christie's had recruited, saying that the 'young, IT savvy, moneyed clientele' had entered the market as 'a direct result of Christie's specifically targeting the contemporary market.'⁴³

⁴⁰ Sotheby's had attempted to establish discrete contemporary art sales in Australia during the mid-1990s, but lack of buyer interest saw those sales discontinued. G. Maslen, 'Auction plan: Let the buyer beware' (2001), in *The Sydney Morning Herald*, 9 February, 14. J. Sexton, 'New York sales raise hopes' (2000), in *The Australian*, 11 August, 10. Subsequently, Sotheby's incorporated contemporary art into their regular feature auctions, describing the potential for 'cross-pollination' between buyers of non-contemporary, and contemporary art. L. Bellamy, 'The new collectors' (2002), in *The Age*, 25 November, 1. Sotheby's Director, Mark Fraser, described the aforementioned 'cross-pollination'. Another senior Sotheby's staff member, Jane Clark, used a similar term in 2005 when she spoke of the potential for the formation of a 'crossover market' between buyers of more traditional, established art, and contemporary artworks. L. Bellamy, 'A gain for the galleries' (2005b), in *The Age* 25 June, 7.

⁴¹ G. Maslen, 'A new way of looking at rising prices' (2002a), in *The Age*, 12 June, 6.

⁴² In 2005 Larkin said: 'I love contemporary art because it's fresh, it's being made in my lifetime and I can identify with what it's saying. I'm also convinced that what I'm doing is where the future of the Australian art market lies.' Bellamy, above n 36.

⁴³ Paraphrased in L. Bellamy, 'Artistic merit' (2000a), *The Age*, 8 May, Money p.6, and Bellamy, 2005a.

Christie's was able to determine which contemporary artists were presented to these new buyers at its auctions, and the company appeared to publicise particular artists over others; this also seemed to coincide with price increases for those artists. For example, time and again, Christie's media reports made reference to the same small group of artists.⁴⁴ This coincided with increased exposure at Christie's sales and associated auction price rises. 26 artists accounted for 58 mentions in a sample of interviews with Larkin between 2000 and 2005. Six of those artists were mentioned more than three times each.⁴⁵ Of those six, Howard Arkley, Rosalie Gascoigne and Tracey Moffatt were drawing considerable market attention at the time, so it is not surprising to find them mentioned in publicity material. The other three artists were Angela Brennan, Susan Norrie, and Imants Tillers. All three of these artists had modest auction profiles prior to the establishment of Christie's Contemporary. But Figure 11 shows that in 2000, coinciding with the establishment of Christie's Contemporary sales, their prices rose suddenly. As with the previously cited example showing Bill Coleman and Stanislaus Rapotec's auction figures, Brennan's, Norrie's and Tillers' biographies record no event or incident for that year that might otherwise explain the sudden price increase. Figure 12 compares the sales made at Christie's with the other top-tier auction houses for these three artists with figures for Arkley, Gascoigne and Moffatt over the same period. They show that the latter three artists' sales were spread fairly evenly across the major auctions, whereas the majority of Brennan, Norrie and Tillers' sales passed through Christie's.

Annette Larkin was aware of the effect of her activities, saying: '[Christie's] put the spotlight on new contemporary artists who deserve the recognition because they have created a new generation

⁴⁴ M. Wilson-Anastasios, *Art at auction: Price formation and the creation of superstars in the Australian art auction market*, (2008), 237ff.

⁴⁵ Sources of information: L. Bellamy, 'Past masters: art' (2000a) in *The Age*, 28 August, 6; Bellamy, above n 39; Bellamy, (2002) above n 36; J. Albert, 'Contemporary art prices soar', (2000) in *The Australian*, 14 August, 3; C. Banham, 'Auction pulls record price for Arkley painting' (2000), in *Sydney Morning Herald*, 14 August, 8; G. ; P. Fish, 'Art's brush with the new' (2000), in *Sydney Morning Herald*, 15 May, 35; T. Ingram, 'No contempt for contemporaries' (2001) 18 October-December, *Australian Art Collector*, 96-7; Maslen, above n 36; G. Maslen, 'Moffatt photos capture record price' (2002b), in *The Age*, 26 June, 7; Maslen, (2002a), above n 37; G. Maslen, 'Something more? Try a \$250,000 bid' (2002c) in *The Age*, 5 February, 4; Sexton, above n 36; S. Verghis, 'Naked obsession' (2003b), in *Sydney Morning Herald*, 2 August, <http://www.smh.com.au/articles/2003/08/01/1059480547942.html>.

of collectors who look at Australian art in a new way.⁴⁶ Under these terms, Christie's was the authority and determined which artists deserved recognition. This is an important point, not just for reaching an understanding of the auction market, but for the art market as a whole; auction events can and do affect the primary-market. Auction price rises can initiate increased demand in the primary-market, and provide dealers with a valuable selling tool. As Larkin observed: 'If Roslyn Oxley, the director of Roslyn Oxley9 Gallery, Sydney, can sell an Angela Brennan painting in her gallery and say Brennan does well at auction, which she does, that provides further guarantees for both the buyer and the artist.'⁴⁷

Annette Larkin at Christie's Contemporary, and Chris Deutscher at Deutscher-Menzies were acting as 'gatekeepers'. Just as a dealer selects which artists enter their 'stable', Larkin and Deutscher seem to have influenced which artists were highlighted in their sales, and so determined which deserved auction market 'recognition'. This also seems to have had an effect on price formation.

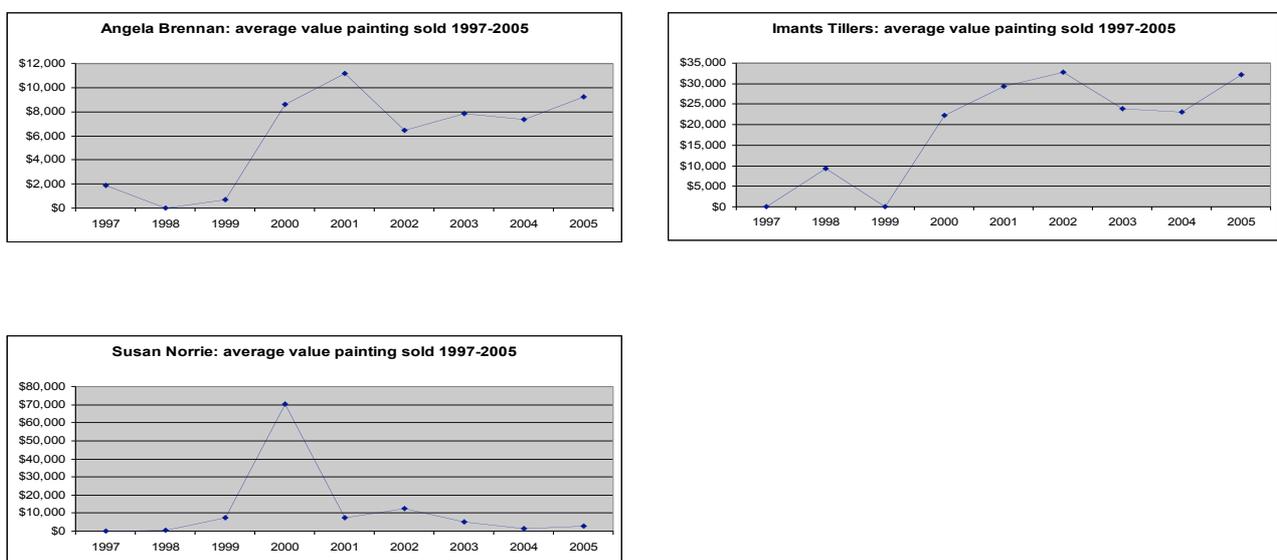


Figure 11: Average value painting sold by Angela Brennan, Imants Tillers, and Susan Norrie 1997-2005.

⁴⁶ Bellamy, above n 36.

⁴⁷ Bellamy, (2005b), above n 36.

Artist	total number of artworks (primary medium) sold 2000-2005	number of number sold at Christie's 2000-2005	number sold at Christie's as a % of total artworks sold 2000-2005
Angela Brennan	17	9	53%
Susan Norrie	36	25	69%
Imants Tillers	23	12	52%
Howard Arkley	25	4	16%
Rosalie Gascoigne	39	15	38%
Tracey Moffatt	26	8	31%

Figure 12: Comparative number of sales made at Christie's for sample group of auction superstars.

Conclusion

In 2000, prominent Australian dealer, William Nuttall of Niagara Galleries, observed that:

Auction houses are extremely influential.... you get all these uneducated people running in, prepared to pay any amount of money for art which they have been told is the hottest thing at the moment. They don't really know what they are doing, but they have plenty of money to throw around. It's a bit like the stock market.⁴⁸

Elsewhere, Nuttall said that: 'the auction houses have responded to the demand our gallery has helped to create.... I never want an auction house to become an arbiter of taste.'⁴⁹ But evidence presented in this paper suggests that auction houses do play a role in the formation of prices and, to

⁴⁸ F. Allen, 'Auctions under fire' (2000), in *Herald Sun*, 6 May, 12.

⁴⁹ L. Bellamy, 'Bull market for Niagara' (2003), in *The Age*, 24 April, 15.

an extent, can shape buyer preference. It seems that buyers depend on the major auction houses for information that helps them make choices and to indicate an artwork's likely value. An artwork sold at a top-tier auction house is more likely to sell for a higher price than an identical, or very similar, piece sold at a lower level auction house. It also seems that if an artist attracts the endorsement of a major auction house, signified by inclusion in its sales, his or her prices are likely to rise.

Given buyers' dependence upon signals transmitted from the auction system, it is important to ensure that the prices that are established at the major auction houses are generated through genuine competition and that the auction record reflects true levels of demand. If the auction record does not reflect genuine levels of demand, this can cause price volatility and so undermine buyer confidence in the market. To ensure this does not occur in the future, it seems that there is a strong argument in favour of establishing industry regulation to restrict behaviour of this type and to protect buyers' best interests. Under current conditions, an auction house is only bound to promote the seller's and its own best interest. Its only obligation to the buyer is to avoid misrepresentation, for example not knowingly selling a forgery or stolen goods. The prices generated through the auction system are not necessarily objective or reflect real competition, still less the way these prices are reported. As would be expected, auction houses will influence outcomes in their own favour wherever possible. In the absence of regulation, an auction house will make use of all available opportunities to maximize revenue generation. But this becomes problematic when a lack of regulation accommodates behaviour that makes it difficult for buyers to obtain the information they require to make an informed and sensible judgment about price in a marketplace where competition is imagined to be the principle price determinant. If a buyer is mindful of an artwork's investment potential, which research has shown most buyers are to varying degrees, then it is important for that buyer to be able to ascertain where forces may be distorting prices, and so render those prices unsustainable.

In terms of market sustainability, if the institutions and agents that dominate the centre of an economic system can exploit a lack of regulation to shift the already inequitable distribution of resources further in their own favour, the agglomerative pull of resources towards the biggest agents reduces the development capabilities of the smaller auction businesses and agents on the periphery of the system. This can undermine the long-term diversity of the auction system and encourage the emergence of monopolies as larger businesses absorb smaller auction houses and so reduce buyers' and sellers' choice. This occurred in Australia during the most recent market boom when international auction house, Bonhams, acquired some of Australia's oldest and largest local auction businesses in three capital cities: Goodman's in Sydney, Leonard Joel in Melbourne, and Bruce's in Adelaide. Only regulation can ensure that the auction houses that dominate the system do not accelerate the process of redundancy that already exists by placing further pressure on smaller businesses.

Ironically, in light of the global financial crisis, the greatest pressure is likely to come to bear on the top end of the market. The boom that commenced in the late 1990s created a seller's market. The major auction houses' biggest problem was securing enough high-end stock to satisfy buyers' demand. Most of the practices discussed in this article were tactics initiated by auction houses as incentives for sellers to convince them to consign works for sale, and to attract buyers' attention. Now that the discretionary funds that fuelled the boom have largely dried up, the challenge facing auction houses is more likely to be finding buyers. Given the current financial climate, it seems unlikely that auction houses will be offering sellers guarantees; in New York, Christie's is being sued by a collector who alleges that the auction house has refused to comply with the terms of a guarantee negotiated in July 2008; when the collector's Francis Bacon painting, which was offered for sale with a \$US40 million guarantee, failed to sell in November 2008, according to the

complaint Christie's refused to pay the guarantee citing 'the changed climate of the art market'.⁵⁰ Although the conditions that generated the practices discussed in this paper may have changed, with the result that they are likely to become less prevalent in the immediate future, without regulation they are likely to recur.

⁵⁰ E. Larson, 'Christie's auction house sued over Francis Bacon guarantee' (2009), in *Bloomberg News*, 20 March.

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