



The Secret Partnership and the Dynamics of Art

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Abstract This paper analyses the secret collaboration between Bernard Berenson, expert of Italian Renaissance art, and Joseph Duveen, one of the most important art dealers. They were instrumental in bringing European art of highest quality to America. Their collusion led to important art collections but also implied substantial limits to competition and market failure.

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1. Introduction

How did it happen that in 1914 Raphael's 'Small Cowper Madonna', was shipped from England to the United States? How did numerous other important paintings of well-known Italian Masters find their way into American collections? Why was there an exodus of European art towards the United States with an emphasis on Italian Renaissance art and what were the implications for collectors, museums and local artists? This paper tries to find some answers to these questions. As we shall see in what follows, one of the answers is the collaboration of Berenson and Duveen: the secret partnership between the eminent connoisseur Bernard Berenson and the likewise eminent dealer Joseph Duveen, representing the company Duveen Brothers.

Chapter 2 outlines the main stipulations of the secret agreement between the two outstanding figures on the market. After describing background and career of both partners it concentrates on a chronology of their cooperation and finally on Berenson's decision to change sides and to become entangled with Duveen Brothers. The third chapter deals with the economic analysis of market failure and the specific difficulties to ascertain quality on the art market. The Langton Douglas Model is

discussed. It gives the example of a participant in the art market who stated openly when he was working as dealer, and when as art historian and critic, in order to avoid any collision of interest. This is much in contrast to Bernard Berenson's clandestine dealing activities which is the core of the Berenson-Duveen collaboration discussed in this paper.

Chapter 4 poses the question as to who suffered damage from the secret partnership. The conclusion is that the resulting redistribution of art towards the US and the success of outstanding public collections perhaps outweigh possible damage suffered by a few. It seems that contrary to orthodox theory, rich people are not interested in paying low prices when it comes to art. There are convincing arguments for this phenomenon that shows features of Veblen's conspicuous consumption. So the tandem Duveen-Berenson was most welcome to at least some buyers (and also some sellers).

2. The secret contract

The art expert Bernard Berenson (B.B.), whom the outside world considered *the* impartial connoisseur of Italian Renaissance art, and the art dealer Duveen Brothers (D.B.) signed their first formal agreement in 1912. It entitled Berenson to a *fee of 25 percent of D.B.'s net profits*. The fact that he was not mentioned with his real name but referred to as 'Doris' demonstrates how cautiously the matter was handled. Secrecy was of utmost importance. To evaluate this contract - dated August 18, 1912 and reproduced in Simpson (1987: 265-271) - we first look at some provisions of the secret agreement.

2.1 Content of the agreement

The *objectives* of the secret agreement are explicitly stated in provisions 3 and 4 (Simpson, 1987: 265ff; italics by the author) as follows:

3. Doris to endeavour to secure on most favourable terms for D.B., Italian pictures and works of art; also to report to D.B. on everything he comes across, and to assist in negotiations. [...].
4. Doris will advise D.B. on all Italian pictures and works of art where consulted by them, and as far as he reasonably can, he will assist D.B. in all negotiations for acquiring such objects.

D.B.'s motive for such an agreement is also stated:

13. The basis of this Agreement is the very considerable value attached to Doris' opinions and beliefs concerning authenticity, etc., [...].

Regarding D.B.'s activity on the Italian art market, they apparently intended to make utmost use of B.B.'s extraordinary know how of Renaissance art and his connectedness with the Italian art market (Art. 3 and 13). On the other hand D.B. wanted to be free to decide when to contact him for advice (Art. 4. '... where consulted by them ...').

On *execution*, the agreement stated:

8. All Italian pictures or works of art comprehended herein to be entered in 'X' book, open at all times to the inspection of Doris, or of 'X'.

No fees payable to Doris except in connection with Italian pictures, or other works of art, entered in the said book ... [...].

Upon signing the agreement, a secret ledger called X book was installed which was to contain all business transactions that were subject to the stipulated percentage arrangement. Entries in the 'X' book were numbered and eventually – upon B.B.'s complaints that D.B. 'forgot' to enter purchases into the book – he was allowed to make the entries himself in handwritten form. 'X' was the London accounting firm, Messrs. Westcott Marshall and Co. The firm's agents were informed of all transactions and would issue half-yearly statements.

On *remuneration*, the following was stipulated:

15. Doris to surrender to D.B. 75% of any fee or profit on any Italian picture or work of art which he has purchased, and which they may acquire from or through him and enter in 'X' book. [...].

16. Regarding Italian Pictures or Works of Art entered in 'X' Book, D.B. to pay Doris 25% of their net profits as and when made and realized ... [...].

In case the art object to be entered in 'X' book was purchased by D.B. through B.B. or upon his advice and B.B. earned money on such transaction, he was to keep 25 percent of his profit (Art. 15). In other words, it could happen that B.B. earned money on both sides: 25 percent on the purchase by D.B. and, according to Art. 16, 25 percent on D.B.'s net profit from the sale. Especially the latter provision proved to be very profitable for B.B. as the high Duveen prices often included very generous margins.

On *secrecy* it was specified:

7. During this agreement, Doris to have no percentage arrangement with other dealers, the intention being that during this agreement, in all his transactions with other dealers Doris will charge a fixed monetary sum for his advice.

Neither party shall divulge the fact, or leave anybody to infer that Doris is paid by D.B. on a percentage basis.

It was extremely important to both parties to keep the arrangement *secret*. Thus they could maintain towards the outside world B.B.'s position as an outstanding independent art expert. Although Art. 7 stipulates that B.B. may give advice to competitors for a fixed monetary sum there is evidence that Joseph Duveen was annoyed every time B.B. certified paintings for other dealers but also that B.B. not always did so for a lump sum but sometimes on a percentage basis.

17. [...]. If absolutely necessary to disclose the fact (i.e. Doris working for fees, the author) then D.B. will only disclose that Doris has received or is entitled to a fee ... but D.B. *to preserve secrecy concerning precise terms and arrangements of this agreement* ... [...].

22. Secrecy Clause binds Executors.

[...]. Neither party to have copy, even to make note about its terms. [...].

Articles 17 and 22 demonstrate, in addition to Article 7, that both parties considered their commitment to secrecy crucial and all-embracing. It was not only binding both parties as well as the executors but also B.B. concerning the stipulations for any money due to him from the 'X' book at the time of his death.

2.2 *The agents*

Bernard Berenson (B.B.) (1865-1959) was born in Butrimantz, a small Lithuanian town southwest of Vilna, in the Northern section of the 'Pale of Settlement'. This was a slice of land stretching from the Baltic to the Black Sea which the Russian Empress Catherine II (the Great) had reserved for the Jewish population of her empire as the only place to settle in, with numerous limitations in their daily life and their possibilities for education.¹ In 1875, Berenson's family emigrated to America, settling down in Boston. Although living with his parents and his four younger sisters and brothers in very poor conditions, Bernard eventually entered the Boston Latin School and later received a grant to go to Harvard University. It was during these years that he got to know Jack and Isabella Gardner, a prominent and rich Boston couple, who had traveled extensively in Europe. Berenson became fascinated with art and decided to go to Europe after graduating from Harvard. For several years he visited all the major picture galleries, concentrating more and more on Italian Renaissance art. Gradually, he was becoming known as an art expert. His first book *Venetian*

¹ In the 19th century, The Pale of Settlement included all of Russian Poland, Lithuania, Belorussia, most of the Ukraine, the Crimea and Bessarabia.

Painters of the Renaissance was published in 1894, with books on Florentine, Central and Northern Italian painters of the Renaissance to follow. Since the 1890ies he was being considered a leading expert on Italian Renaissance art; he kept this reputation all his life (see e.g. Peggy Guggenheim's autobiography, 2005[1946]: 329, where she mentions how much she had learned from B.B.'s books).

In 1907, Berenson and his wife bought a large estate in Settignano near Florence, I Tatti, which he bequeathed to Harvard University, together with his distinguished art collection and magnificent library on art. It is now the Harvard Center for Italian Renaissance Culture. B.B. died in 1959.

What makes Bernard Berenson especially interesting in our context is the fact that he always maintained the outward appearance of an independent scholar. He acted as scout to collectors, mostly clandestinely, earning a share of the sales or purchase price of paintings he had recommended. This was repeatedly the case with Isabella Stewart Gardner whom he advised on Italian paintings and other pieces of art for her museum Fenway Court in Boston that opened in 1903. For his advisorship, B.B. retained five per cent of the price she paid; sometimes he seemed to manipulate the price substantially. In connection with the purchase of the Inghirami portrait then attributed to Raphael, Berenson wrote to Isabella Stewart Gardner about the painting thereby doubling the price which the Florentine art dealer had stated to him. Due to the intervention of Isabella's suspicious husband who was a trustee of the Boston Gallery of Fine Arts, the purchase was finally correctly settled at the dealer's original price with B.B. receiving five percent thereof (for further details see Holler and Klose-Ullmann, 2008).

B.B.'s reputation was not untainted. In his *Sketch for a Self-Portrait*, published 1949, he widely regretted having left the realm of scholarship. However, he never was explicit about his change of roles and interest.

Joseph Duveen (1869-1939), the art dealer, was the son of the Jewish antiquity dealer Joel Duveen who had made his way from Holland via Hull to London where he opened business in 1876. Joseph being the oldest of 12 children started at the age of 17 in his father's shop in London. By then Duveen Brothers (D.B.) had opened a very successful branch in New York, run by Joseph's uncle Henry,² selling French furniture, tapestries, silverware and Oriental and Dresden china. Also, to a large degree, D.B. was monopolizing the business of redecorating the houses of the English nobility including the royal family as well as dealing with rich American

² Joel's younger brother was always referred to as Uncle Henry, to distinguish him from other family members.

customers.

Joseph would travel back and forth between England and America at an early stage in his life. Very soon did he become convinced that in Europe there was a lot of art for sale and in America plenty of idle money. His idea was to bring these two sides together, with himself as intermediary. And so he did. After his father's death in 1908 and Uncle Henry's 11 years later, he became the undisputed boss and later the sole owner of the flourishing House of Duveen, operating from New York, Paris and London. Because of his sometimes rather dubious sales techniques and biting comments - to say the least - he was considered a highly controversial figure in the art market, hated by some and loved by others.

Although there were, of course, important competitors on the scene, Joseph Duveen was thought to be the most influential and successful art dealer on the market. In 1919, he was made Sir Joseph by George V and, in 1926, he became Lord; since then he called himself Lord Duveen of Millbank. He gave considerable donations to various art institutions in London, financing a new wing to the Tate Gallery and the Duveen Gallery in the British Museum to house the Elgin Marbles. He also granted substantial funds to the Wallace Collection for restoring purposes.

2.3 Chronological development

Business relations between Duveen Brothers (D.B.) and Bernard Berenson (B.B.) started in 1905 after D.B. had bought the Hainauer Collection from the widow of the late Oskar Hainauer, banker and collector in Berlin. B.B. agreed to give his opinion on the paintings of this collection. When a picture was sold, B.B. would send the purchaser a written certificate. For this service he retained a lump sum of \$ 10,000 plus his expenses although, already at that time, he would have preferred to receive 5 percent on the sales price of the paintings concerned. It is not surprising that Berenson wanted his connection with D.B. and the Hainauer Collection to remain a secret. Joseph Duveen, however, considered the connoisseurship of an expert of B.B.'s caliber a real asset to his business. In the years to come, he would always tell his clients they should not buy any Italian painting without a certificate by Berenson. Of course, neither he nor B.B. disclosed that they worked under a partnership agreement.

In 1907 when D.B. had purchased the Kann Collections for \$ 4.2 million, B.B. started to work for D.B. on a fee basis. Apart from re-checking the attributions of the Italian pieces of the Collections and certifying them, he was allowed to sell paintings from the Collections to his own customers. Any sale thus materialized would entitle him to a

commission of 5 percent.³ In autumn 1908, D.B. offered B.B. a formal contract: Duveen Brothers promised to sell no Italian picture without B.B.'s advice and suggested a fee of 10 percent of the profit on any Italian items they sold. However, there were some events that prevented the drafting of the formal contract until late 1912. First, at the end of 1908, the founder of the business, Joel Duveen, died which led to a substantial reorganization of the company. Then, on October 18, 1910, the famous 'Duveen Smuggling Case' broke loose.⁴ It was settled in 1911. In September 1912, the Secret Agreement between D.B. and B.B. was signed, stipulating - as mentioned above - a 25% fee for B.B. of the net profits on all Italian pieces sold by Duveens, instead of the 10% originally suggested by Joseph Duveen. Apparently, B.B. had gained much negotiation power and D.B. expected flourishing business from the partnership.

A few years later, Joseph Duveen became determined to sever the profit-sharing relationship with B.B. He saw an opportunity after Uncle Henry's death in 1919. However, for rather compromising and difficult reasons, the contract was amended several times and finally lasted until 1938. In the amended version of 1922, B.B. was even permitted to deal in his own account if Duveens were not interested in the pictures concerned (Simpson, 1987: 184).

In 1927, Joseph Duveen was diagnosed with stomach cancer. Therefore, he asked his financial consultants for an up-to-date account of the 'X' book as basis for a settlement with B.B.⁵ After his medical operation Joseph Duveen definitely intended to terminate the profit-sharing part of the agreement with him. In March 1928 B.B. agreed to the following terms: D.B. would pay him altogether \$ 600,000 for past services (an amount which was de facto - without B.B.'s knowledge - 'reinvested', i.e. remained in the company at 4½ percent interest) and promised B.B. an annual retainer of \$ 50,000 for a period of five years even if one of them should die, plus a 10% fee on the purchase price of any Italian paintings and drawings bought. Thus, the secret association was still valid but it was

³ This secret arrangement was kept for a year or so until B.B. 'gained' his reward, namely a formal contract with D.B. by luring Arabella Huntington away from the art dealer Seligman to buy from Duveens' who had long tried to gain her as a major customer. In July 1908 she bought Rembrandt's *Aristotle Contemplating the Bust of Homer* from Duveens and deserted Seligman. During the period 1908-1927 Henry and Arabella Huntington spent over \$ 21 million with Duveen Brothers.

⁴ Upon 'whistle blowing' by an annoyed employee, the Duveen premises in New York were seized by US Customs, claiming unpaid customs duties for the time predating 1909 ranging from \$ 2 to 10 million (for further details, see Secret, 2004: 95ff).

⁵ Between 1912-26, the X-dealings had generated a net profit after all expenses of \$ 8.5 million, B.B.'s share reaching \$ 2.4 million with 25% of the losses of \$ 0.8 million being deducted - apart from his annual retainer (Simpson, 1987: 222ff).

no more a profit-sharing partnership. Only in 1923, when B.B. testified in the 'Belle Ferronière' case on Joseph Duveen's behalf, did it become known that B.B. had a business relationship with D.B. (see Secrest, 2004: 233).

Despite Joe Duveen's fragile health condition, he remained active for another 11 years. The 1930ies turned out to be enormously profitable for the company and B.B. tried more than once to regain his former status, without success. In 1937 he signed a new retainer agreement for \$ 150,000 p.a., on a six months' notice. In the same year Joseph Duveen bought Giorgione's 'Adoration of the Sheperds' from Lord Allendale ('Allendale Nativity') for \$ 315,000, although he knew that B.B. attributed it to Titian. According to Simpson (1987: 257), Duveen even "...announced the purchase publicly, saying that all 'well regarded' scholars agreed it was by Giorgione and that it was destined for a famous collection". Originally, he had thought to sell it to Andrew Mellon but the latter had just died. So, one year later he sold it to Samuel and Rush Kress for \$ 400,000. They bequeathed it to the National Gallery in Washington. The quarrel between B.B. and Joseph Duveen led to an abrupt and final break between the two 'giants', shortly before Joe Duveen died in 1939.⁶

Their long-term relationship turned out to be enormously profitable for both D.B. and Berenson: During the period of 1911 until 1937, his profits (without outlay) amounted to '\$ 8.37 million – in today's values almost \$ 150 million' (Simpson, 1987: 2). This, however, was just a small part of what D.B. earned due to this relationship, not to speak of all other business outside of it.

2.4 Reasoning and motivation

Bernard Berenson was always in search of money – not only for himself and his wife Mary, née Pearsall Smith, and their grand life style but also for I Tatti, the large estate he had bought in Settignano near Florence. It needed extensive restoring, new annexes and interior decoration.

In 1909, B.B. wrote in a letter to his friend and customer John Graves Johnson that he had a business relationship with Duveen, without disclosing any details. Johnson believed that Duveen, like himself and other collectors, would pay B.B. a finder's fee and was always cautioning him to stick to serious collectors and not become involved with the dealers (cf. Simpson, 1987: 136 and Secrest, 199: 234f). Berenson's reasoning for the business relationship was the following: (1) The American buyers were

⁶ Shortly before his death in 1954, B.B. changed his mind. He wrote 'Adoration of the Shepherds' was very largely the work of Giorgione (Simpson, 1987: 261 and Secrest, 2004: 444).

prepared to pay outrageous prices but - without him – receiving little in return (see e.g. Fenton, 2008: 56). (2) With his expert advice the American buyer would get some exceptional paintings that might never reach America if he were not involved. And (3) it was not his business to prevent Mr. Altman (or the like) from squandering his fortune.

Meryle Secrest (1979: 247ff) argues that working for the seller instead of the buyer placed B.B. in a totally different position. Advising the buyer, he was in a similar position as a scholar: He was predominantly interested in identifying the painter, regardless whether he was an important or lesser important one. Advising the seller, B.B.'s position – according to Secrest – was reversed: It was essential that the picture was painted by an important artist. The difference between a painting by Giovanni Bellini or, alternatively, by his workshop or one of his followers had a major impact on the sales price – and accordingly B.B.'s share.

However, since 1895, B.B. did not only advise the buyer for a fixed sum but also received a percentage fee tied to the purchase price of the art object. He advised Isabella Stewart Gardner on purchases for her intended art gallery in Boston, retaining 5 percent of the purchase price of every work of art that she acquired upon his recommendation. His relationship with her as an art consultant was apparently not only driven by a scholarly interest but also by quite strong commercial aspects.

The secret agreement did not place B.B. in a totally different position. Instead, having already changed from the buyer's to the dealer's (i.e. seller's) side, it was a question of more money to be earned. With D.B. he received 25 percent of the net profit on the sale of Italian paintings and works of art, apart from a sumptuous annual retainer and reimbursement of all his outlays.

3. Economic analysis

Obviously, the Berenson-Duveen Conspiracy has a strong business background. Primarily, it was not meant to enjoy Italian Renaissance or to educate the somewhat culturally lagging Americans, but to earn money – a lot of money. This does not exclude that B.B. and Joseph Duveen had also more philanthropic concerns, like building up an exquisite research library or financing galleries and museums. But for the period covered by the secret contract commercial interests are dominating. It seems that this was very profitable⁷ for the two partners but was it beneficial for their clients and costumers, the art world and, in the end, for society? To prepare

⁷ According to Simpson (1987: 2) '...between December 1911 and December 1937 his [B.B.'s] share of the profits, with no outlay, was \$ 8,370,000 – today almost \$ 150 million'.

answers to these questions we have to look into what economics tells us, especially when the quality of goods is not given or if it is not common knowledge.

3.1 Supply and demand

In basically all textbooks of microeconomics a market is described by a simple model of supply and demand. In general, supply curves are drawn with a positive slope and demand curves with a negative slope. The equilibrium price is determined by the intersection of the two curves. This model presupposes perfect competition which implies that an individual agent does not have any impact on the market price and the good traded on this market is homogeneous: no differentiation with respect to quality, location, and time exists. Of course, it is assumed that buyers know these details and the equilibrium price clears the market such that the quantities bought are equal to the quantities supplied.

Welfare economics tells us that if all markets are structured and function that way then the result of the market economy is Pareto-efficient and no individual member of the economy can be made better off without making another one worse off. This looks like a promising state of the world, however, the demand curve not only assumes that consumers are price-takers, and thus consider the market price as given, but also consumer sovereignty: demand depends on the budget of the buyer, his or her preferences, and prices. Of course, we know that, in general, advertising is not honoring the independency criterion and is thus threatening market efficiency. That is why the law prescribes a list of limitations as to what suppliers can do to influence demand. Traditionally, many limitations are challenged and subject to circumvention strategies. Often suppliers intervene in the law making, e.g. through lobbying, the media or more directly through pressure groups, to limit the restrictions on advertising – although in some cases restrictions can be profitable for an industry that would otherwise spend too much money on TV spots and multi-colored newspaper ads. Still these are exceptional cases. In general, business propagates the freedom of advertising under the umbrella of spreading information about supply and furthering competition among suppliers, to the best of consumers. However, what we see and hear is mainly an exercise in changing (manipulating) the consumers' preferences and making them forget their budget constraints. Ubiquitous personal bankruptcies are a clear indicator for how advertisements work on various levels.

If demand is manipulated by supply, and thus the independence condition violated, economists talk of market failure. This is not because of the bankruptcies but because the conditions of perfect competition are not

satisfied and Adam Smith's invisible hand of competition and individual optimization does not guarantee Pareto efficiency – in fact, the invisible hand was never meant to *guarantee* anything.⁸ Obviously, B.B. and D.B. joined to shape, and perhaps even to create, the preferences of their clients for what B.B. and D.B. defined as *good* art. Of course, it helped that B.B. acted as an expert, bringing a flavor of an expertise's impartial, objective opinion and consumers' sovereignty to the business relations. This flavor was nourished by the fact that the clients, not knowing about the secret contract, considered Berenson an independent expert.

Fortunately, the budget constraints of their clients were a minor problem and personal bankruptcies because of having bought too many Titians and Botticellis were not a threat. We should keep this in mind when we try to evaluate the activities of the two secret partners.

3.2 *Problem of quality*

The expertise of B.B. was of high value to his clients, perhaps even more so, because the buying and selling of art is heavily plagued by a quality problem. However, first of all, we have to see that the homogeneity assumption is hardly ever fulfilled. In general, the original version of a painting is unique, although even Hieronymus Bosch did doublets. Quite many modern painters made a program out of overcoming this uniqueness by doing series, most prominent of all Andy Warhol with his silk prints.⁹ But at the time of B.B. and D.B., Warhol is still far in the future, especially when we consider their concept of art and compare it to Warhol's concept. Sometimes, however, they used original Renaissance art of perhaps minor quality as 'ready makes', beautified the material, renamed the author and sold it at high prices.

If goods are not homogeneous, it makes little sense to draw intersecting curves of supply and demand and hope for Pareto efficiency. We may play with the Coase theorem and approaches of efficient bargaining, to overcome the homogeneity problem, however, heterogeneity in art is more problematic than on the market for bulls. As uncertainty is non-negligible for this market, the Coase theorem does not apply anyway (see Medema and Zerbe, Jr., 2000: 80.) There is a very serious quality problem involved and the art expert is expected to help solve it, i.e., by telling the buyer and seller 'what the good is'. This often includes the identification and certification of the artist who produced the object, as well as properties of the work

⁸According to Smith (1979[1776/77]: 456) competition may lead to an efficient result but this is not always the case.

⁹For information from the 'inside', see Warhol (1975).

itself, also in comparison with related work by the same artist and by others. How well it is preserved and what is the outlook of its preservation for the future can be determining factors, too. This is what an expert is expected to look at and certify in an unbiased way. But it is perhaps difficult to be unbiased if you get 10 percent of the sales price or, more so, if 25 percent of the profit of the intermediary are your premium. In some instances, the expertise certainly reflects the expert's (i.e. Berenson's) objective, impartial opinion. However, if the partnership implies a series of deals, cooperation of B.B. and Duveen to the disadvantage of the buyer becomes more likely, given that the end of the partnership is 'unforeseeable'.¹⁰

Of course, expertise is not the only instrument which allows to overcome quality uncertainty on the art market. Some are well known from other markets with quality uncertainty, especially the labor market, and we are not really surprised to find traces of them also applied to the buying and selling of art. Screening is perhaps closest to using an expert if the expert is impartial and can be trusted by both parties of a trade. It amounts to measuring, weighing and, perhaps, testing, etc., activities which are not easy to execute when art is involved and the results could be of minor value as to assessing the quality. Historical studies could be added and are in some cases quite successful (see Fenton, 2002: 50f).

In any case, screening seems adequate if neither the buyer nor the seller has information on the quality. However, if the seller is informed about the quality, as it was, relatively speaking, with B.B. and D.B. on this side of the market, then signalling is a more promising strategy. As Klein and Leffler (1981) pointed out, thick carpets and expensive-looking paintings on the wall can signal the high quality standard of a law firm if a lawyer of lower quality cannot afford these symbols of success, or does not want to invest in them because amortization depends on his quality and the confidence clients have in it. If this works, a separating equilibrium of the signalling game exists.¹¹

B.B. and D.B. did not content themselves with thick carpets and expensive-looking paintings, both items would not be very exiting signals in their case, but they developed such a luxurious life style that it became clear to their clients that these two are bound to have success today, tomorrow, and also in the longer run. This implies, so the reasoning is, that D.B. delivers excellent quality and B.B. gives unchallengeable expertise. This reasoning works if we consider each of the two agents in isolation,

¹⁰ This is an implication of the so-called Folk Theorem.

¹¹ For signalling games, see the pioneering work by Nobel price winner Michael Spence (1973).

however, if they cooperate the reasoning is undermined. But their cooperation was in secret, and they wanted to keep it a secret for obvious reasons. Had the relationship between B.B. and D.B. been public information, an expertise which supports the offer of Duveen is, of course, of little value as signal of quality – or confirmation of the authorship of a particular painting.¹²

However, as the selling of art, in the case of D.B., was a long-term business and B.B. was concerned about his reputation as art expert the combination of the two indeed assured some quality – not always, but on the average. This is not a trivial result because, given the asymmetry of information and skill that characterizes the buying and selling of art, there is the threat of adverse selection¹³ such that in the end only minimum quality will be traded. If there is a 50 per cent chance that the offered Giorgione, worth x , is the oeuvre of a second-rate pupil of Titian,¹⁴ then worth y , the expected value is $z=(x-y)/2$. But if the Giorgione is offered at a price z , the buyer concludes that this is not a Giorgione as the owner of a 'real' Giorgione would not sell at price z . So, in the end, only paintings that contain no risk of being overvalued will be traded, and these are definitely not the most exiting ones. Here enters Bernard Berenson who declares that the painting is a Giorgione and worth a price x , and a rich American buys it who would have never purchased the painting if it had been made by a second-rate pupil of Titian. This is how quite a few paintings by second-class pupils and followers traveled over the Atlantic. But also Giorgione settled in America, in the case of the 'Allendale Nativity' even without B.B.'s attribution, as we have seen in the previous chapter.

There is still another argument why D.B. needed the certification of an 'independent' expert. Customers wanted to be sure that the high 'Duveen prices' were justified and, if necessary, could resell the piece of art at the high price they had originally paid. These customers were not interested in questioning B.B.'s independency and the value of his certificate if they had previously bought items under this scheme.

As the New York critic Richard Offner pointed out, '...high prices are far from serving as a reliable criterion of quality...' (quoted in *Secret*, 1979: 248). This seems to be true, but there can be other reasons why both

¹² Under these circumstances an expertise by B.B. was part of a pooling equilibrium and buyers can derive very little information about the quality if B.B. is not worried about his long-run reputation. But as he was, he tried to keep the contract a secret.

¹³ This concept became popular through George Akerlof's paper 'The Market for Lemons' (1970) which gave him the Nobel prize together with Michael Spence (see footnote above) and Joseph Stiglitz.

¹⁴ Titian had problems with his first-class pupil Tintoretto because the latter threatened to steal his clients.

sellers *and* buyers are interested in high prices. Buyers who have their walls filled with paintings purchased at D.B. would be shocked if Duveen were to sell at lower prices than before, and would no longer buy from him. However, Joseph Duveen was reliable on selling at high prices and Berenson was one of the instruments to keep this level.

3.3 *The Langton Douglas Model and Berenson's deviation*

The secret cooperation of Berenson and Duveen was certainly not unique on the art market. Often, experts were acting as dealers as well, and concealing this fact from the public. But it is worth looking at another model: that of Robert Langton Douglas which demonstrates that 'moral behaviour' existed on the art market, as well.

In connection with the purchase of the Hainauer Collection, Joseph Duveen asked Wilhelm von Bode, Director of the Kaiser Friedrich Museum in Berlin, whom he would recommend as expert. Von Bode replied that the best scholar in Europe was probably Robert Langton Douglas, arguing that Douglas had recently been retained by John Pierpont Morgan to form a collection of Sieneese paintings and that he had been successful in an academic dispute with Berenson over the question who had discovered the painter Stefano di Giovanni, called Sassetta (cf. Simpson, 1987: 102f).

But there were other remarkable differences between Robert Langton Douglas and Berenson. Langton Douglas had read theology at Oxford and been ordained in 1892 as a Minister of the Anglican Church but had soon thereafter resigned. For the next eight years he traveled in Italy, working as an independent art historian and critic. Despite writing two bestsellers (*Fra Angelico* and *History of Siena*) he did not earn enough money as art expert. Therefore he became an art dealer.

In a letter to his children which Langton Douglas deposited with them when he joined the army in 1914 and which was only to be opened in case of his death, he wrote about his considerations and reservations to act as a dealer:

It had been suggested to me that I might add to my income, privately, by dealing in pictures, as well as by helping other tradesmen to sell their wares or that I might take a permanent post as the privy adviser to some firm of art dealers. But this furtive kind of picture jobbing did not seem to me to be an honest occupation for an art historian. I thought then, and I still think, that it is quite legitimate for a student engaged in dealing to write on his own special subject, or to give lectures on it, if by doing so, he can add something to the sum of human knowledge, provided that all the world knows that he is a dealer. But I held then, and I still hold, that for an art critic or historian to pose as an impartial judge, when he is, in reality, a paid advocate, is a thoroughly dishonest

practice. I decided that, if I had to engage in trade, I would openly declare myself to be a tradesman. I announced this fact in the *Morning Post* and numerous art periodicals, and in order to learn my job, I was for a short time a salesman in New Bond Street [with Colnaghis]. In the spring of 1904 I started business on my own account (quoted in Simpson, 1987: 104).

It seems that Langton Douglas and Berenson were equals in terms of their knowledge and experience with Italian art. But their approaches toward using this expertise differed to the extreme (see also Secret, 1979: 155). Langton Douglas was only interested in paintings of museum quality. He became the British buying agent for the Kaiser Friedrich Museum in Berlin. Then he was asked to catalogue the exhibition of Sieneese art at the Burlington Fine Arts Club in 1904 and shortly thereafter J.P. Morgan retained him, as mentioned above. When he was asked to re-catalogue the Hainauer Collection, he declined on the basis that there might be a conflict of interest as he was aware that J.P. Morgan was interested in some pieces. Obviously, he did not even know that Morgan had partially pre-financed Duveen's purchase of the Collection.

Berenson in turn was highly pleased to be asked¹⁵ and gladly accepted. He thought that this might be the first step towards being retained by J.P. Morgan or possibly by the Metropolitan Museum whose President Morgan had been since 1904. It seems that Berenson did not consider the term 'conflict of interest', often so obvious in his way of handling things, or if he was aware of it he continuously disregarded the deviation from adequate behaviour. However, 'B.B. lived in perpetual fear of discredit: his livelihood depended upon maintenance of a delicate balance between his roles as critic and connoisseur of repute, and that of profitable intermediary' (Fowles, 1976: 130). In fact, "...a great many scholars of Berenson's generation became involved with the trade and only a few, 'to their eternal credit, refused to do so, because it was wrong' (Benedict Nicolson, editor of the Burlington Magazine)" (quoted according to Secret, 1979: 233).

Although Robert Langton Douglas¹⁶ became involved with the trade, he would get 'eternal credit' as he meticulously refrained from a collision of interest. As long as he acted as an art expert, he accomplished the function that the demand-supply curve presupposes: impartiality in certifying

¹⁵ He was told upon J. P. Morgan's recommendation. It was not mentioned to B.B that it was actually Langton Douglas, i.e. his arch rival, who had recommended him: 'Why don't you ask Berenson. I know he needs the money'.

¹⁶ His widow, Jean Langton Douglas, got many years later married to Joseph Duveen's long-term assistant, Edward Fowles who in the 1940ies became the sole owner of Duveen Brothers.

quality. The case of Bernard Berenson, however, demonstrates that it is not obvious that an art expert performs in this way.

4. Outcome

The Berenson-Duveen collusion led to the high 'Duveen prices' and also to a strong movement of Italian Renaissance art, as well as other European art objects, towards the United States of America. Who were the people or institutions that were affected by these prices and/or this art movement and possibly suffered from them?

It seems that there were three parties involved, above all the American purchasers, as second group the European art galleries and private collectors and as third, less obvious, party the American artists and contemporary art.¹⁷ The purchasers were directly affected by the high prices but did they really suffer from them? As previously pointed out, Duveen's customers were a special set of people, the rich, influential Americans, the 'squillionaires', as B.B. called them. Joseph Duveen sensed that they were craving to buy works of reputed European artists, especially from Italian Renaissance times. They wanted to do so not only for their own pleasure but also to make the art works known to their fellow countrymen and women, to educate their sense of beauty and aesthetics but also to demonstrate their immense wealth and to reach immortality through their art donations.

We know that these 'squillionaires' had hardly any budget constraints, to the contrary. Quite many of them wanted to buy at high prices as this seemed to have been a matter of standing: The higher the price paid, the dearer the piece purchased. They did not want to get 'bargains' as they considered low prices to be an indication of low value and low purchasing power. In their case, the 'utility of articles valued for their beauty depends closely upon the expensiveness of the articles' (Veblen, 1979[1899]: 126). The collaboration between Duveen and Berenson helped the rich to spend extra money on 'conspicuous consumption' to distinguish themselves from people with smaller pecuniary means.

Also, there was a scarcity argument involved. Around the turn of the 19th to 20th century, it was more or less general opinion in Europe that an American must expect to pay more for famous works of art, since there were so few Old Master paintings, sculptures, old books or other antiquities on that side of the Atlantic. But, as Berenson remarked in his letter to his friend Johnson, the Americans would have paid high prices

¹⁷ For a more comprehensive evaluation of the American Renaissance in art collecting, see Holler and Klose-Ullmann (2008).

anyway (see section 2.4), whatever the reasons may have been.

Evaluating these arguments it seems the secret partnership worked to the advantage of the American collectors, most likely providing them with art of higher quality than they might have bought without its existence. This can be illustrated by what happened to the 'squillionaire' P.A.B. Widener: He had bought more than ninety paintings, attributed to Old Masters such as Vermeer, Botticelli and Leonardo da Vinci, from the Dutch art dealer Leo Nardus. In 1908, the majority of his collection turned out to have been sold under what Widener then called 'gross false pretenses'. The entire collection proved to be worth about 5 percent of what Widener had paid for it (Lopez, 2008: 36f). Only then, American collectors started to insist on an expert's certification when buying Old Master paintings (Lopez, 2008: 42f).

As to the group of European art galleries and collectors, the situation was quite different. The group of sellers among them, of course, profited from the Duveen prices that were, although to a lesser degree, also beneficial to them. On the other hand, due to the many political and economic upheavals during the decades until World War II, European art galleries or private collectors intending to complete or enhance their collections were experiencing heavy budget constraints. They simply could not afford to buy pieces of art at the high Duveen prices.

Regarding the third group, American artists and American art, they suffered more indirectly from the 'conspiracy' between Duveen and Berenson and the strong interest in Italian Renaissance and other European art that rich Americans were developing and - through their collections - were passing on to the general public. From the point of view of American artists, the American millionaires would have been their clients and patrons on a more substantial scale had their taste been less accommodated to European art. Of course, it is impossible to quantify how much truly American art these collectors did not purchase because of their strong buying activities in Europe. But due to the exodus of European art up to World War II, American art was to a certain degree crowded out of American galleries and private collections. Also, there was probably a certain time lag concerning the development of truly American art. This changed completely after World War II (see Holler, 2007).

The collaboration of Berenson and Duveen led to a redistribution of Italian Renaissance art from Europe to America. This was the basis of prominent collections of Old Masters and English and French art of the 17th and 18th century, to be completed with more recent European art. Either these collections remained private and became open to the public, such as Fenway Castle (Isabella Stewart Gardner Collection) in Boston, the Frick Collection in New York, The Huntington and the Norton Simon Museum in Pasadena, California, or the collections were bequeathed to

museums such as the National Gallery in Washington (founded by Andrew Mellon) or the Metropolitan Museum. Keeping this outcome in mind it is difficult to think in terms of damage to any party except potential collectors and American artists as mentioned earlier. This holds even more when today's mobility of art works is taken into account, being demonstrated by wonderful exhibitions across the world. It can also be argued that without the secret collaboration, quite a few deals might not have happened and consequently, fewer masterpieces would have come to the United States.

Considering the above, it is difficult to draw unambiguous conclusions about the secret partnership of Bernard Berenson and Joseph Duveen and its value for the art world. In his article about the rather dubious activities of the above-mentioned art dealer Leo Nardus, Lopez (2007: 82) stated: 'Today, this relationship [of Berenson and Duveen] is sometimes viewed disapprovingly, from a moral standpoint, but it is worthwhile to note that Berenson and Duveen colluded to make money selling genuine masterpieces, not false ones à la Nardus'. The Duveen-Berenson conspiracy is probably one of the rare cases that turned out to have been not only extremely lucrative for the two colluding partners but having substantial welfare effects for the general public, as well.

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