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Managing (Un)certainty in the Japanese antique art trade – how economic and social factors shape a market

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Abstract: Market actors are commonly faced with solving three distinct coordination problems as sources of uncertainty. How should they value the objects of their trade? How can they shield themselves from the competition? And with whom and how do they cooperate? This article investigates how Japanese antique art dealers confront these issues. While offering a rich description and analysis of a hitherto understudied Japanese market, the article shows how economic and social issues are closely intertwined. It contributes to our understanding of behaviour in a Japanese market in three ways. First, it underscores how inclusion/exclusion, status, reputation, networks and hierarchies constitute a field that allows market exchanges to exist in the first place, while also channelling, and being impacted upon by these market exchanges. Secondly, contrary to neoclassical economic theory, where the idea of value has largely been abandoned, the findings highlight the importance of distinguishing between notions of value and price in the understanding of markets. Thirdly, the article shows how market actors actively shape market arrangements to address the specific challenges of their domain. In the case of the Japanese antique art market these challenges include high risks of fakes, a limited quantity of high quality material, market outsiders, and dealers with deep pockets.

Keywords: valuations, pricing, auction, lottery, social organization, Japan, economic sociology, antique art

Introduction

In a paper on Tokyo's Tsukiji fish market, Theodore C. Bestor (1992, p. 1) remarked that '(p)robably the economic system of no society is subject to as

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much scrutiny, analysis, and sheer speculation regarding its "special character" as is Japan's.' Bestor argued that underlying this interest in Japan's economy was the implicit or explicit assumption that social patterns and cultural values condition economic systems. This article will not argue that there is something particularly 'special' about the Japanese antique art trade, in the sense that some of the described structures and practices could not or never be found in other countries, even though some of the described auction practices appear indeed to be unique and have, to the best of the author's knowledge, never been discussed in the world's auction literature. Instead, the article highlights the important role that social factors such as inclusion/exclusion, status, reputation, networks and hierarchies have played in shaping the structure and practices of the antique art trade in Japan. The theoretical lens through which this market is examined in this article is shaped by recent contributions to economic sociology literature, a subfield of sociology that aims to conceptually unify social, cultural and economic perspectives in the study of economic phenomena (Smelser and Swedberg 2005, p. 3). While offering a detailed description and analysis of a hitherto understudied Japanese market, the article demonstrates through rich empirical evidence how economic and social issues are closely intertwined. In particular, it contributes to our understanding of behaviour in a Japanese market in three ways. First, the findings underscore how inclusion/exclusion, status, reputation, networks and hierarchies constitute a field that allows market exchanges to exist in the first place, while also channelling, and being impacted upon by these market exchanges. Secondly, contrary to neoclassical economic theory, where the idea of value has largely been abandoned, the findings highlight the importance of distinguishing between notions of value and price in the understanding of markets. Thirdly, the article explores in detail how market actors actively shape market arrangements to address the specific challenges of their domain. In the case of the Japanese antique art market these challenges include the high risk of fakes, a limited quantity of high quality material, market outsiders, and dealers with deep pockets. To examine these issues, the article proceeds as follows. The next section elaborates on the theoretical framework of this article and takes account of some Japan-related literature. This is followed in the third section by a short discussion of methodological and research ethics issues. At the heart of the article, the findings section analyses and discusses in detail the social order of the Japanese antique art market. The article finishes with a short summary and discussion of how the findings relate to other Japanese markets.

Ways to look at markets

Following an economic sociological perspective, the purpose of this paper is to shed light on the workings of the Japanese antique art trade, a topic on which there exists currently close to no English or Japanese academic literature. Before reviewing the few sources that do refer to this Japanese market, this section will first set out the theoretical framework of this article.

Despite significant progress of sociologists to understand the origins, workings, and dynamics of markets as social structures in recent years, a theoretical consensus that would bring together the different perspectives has yet to emerge. Fligstein and Dauter (2007, pp. 106–107) identify three major theoretical approaches according to whether researchers focus on (a) networks, (b) institutions or (c) performativity as explanatory mechanisms in the emergence and dynamics of markets. While network scholars focus on relational ties between actors as sources of social structure, institutionalists 'focus on how cognition and action are contextualized by market rules, power, and norms. The performative school of thought views economic action as a result of calculative processes involving the specific technologies and artifacts that actors employ' (Fligstein and Dauter 2007, p. 107). Despite these different approaches in the literature, all mainstream economic sociologists view markets as social arenas where the connectedness of social actors affects their behaviour and where actors are not simply calculating their actions according to rational or economic criteria. Inclusion/exclusion, status, reputation, networks and hierarchies constitute the social order that allow market exchanges to exist in the first place, while also shaping, challenging, and being impacted by these market arrangements.

In this article we focus on the recent theoretical contributions from Beckert and Aspers (Beckert 2009; Beckert 2011; Aspers and Beckert 2011). Although their approach might be criticized for being somewhat 'flat' sociologically, as social aspects appear to come in only after being bent through the prism of the market, it allows a focus on three distinct coordination problems as sources of uncertainty that market actors need to address. These were the focus of our empirical investigation (Beckert 2011): *valuation*, *competition*, and *cooperation*. In any given market, participants are faced with the uncertainty of assessing the value of commodities (meaning the regard that something is held to deserve). Demand can constitute itself only when the potential purchasers can distinguish between the values of goods and the sellers can reliably demonstrate these values. The assignment of value to goods and the development of preferences are a complex affair and particularly difficult in markets such as the art market, where objective criteria, like technical standards do not exist (Velthuis 2003). In such markets the value of products depends upon symbolic assignments of value that must be constructed by market participants (Velthuis 2011). In economics, marginal utility theory considers preferences, as expressed in the market place, as exogenously given. Moreover, it abandons the notion of value to focus exclusively on prices, which are considered to be an outcome of supply and demand. However, Aspers and Beckert (2011) argue convincingly that a full understanding of markets requires a distinction between value and prices. Whether prices are considered high or low can only be judged with some notion of value, which is independent of price.

Competition is a paradox for markets. While it is a constitutive element of any market, it also limits profit expectations. Market actors have thus an intrinsic interest to establish market structures that shield them from competition and reduce uncertainty. Beckert (2009) highlights mechanisms such as product differentiation, first-mover advantages, reciprocal agreements, corruption, cartels, or monopolies. Such self-regulation of competition can rely on institutional forms, like standards or voluntary agreements, on networks such as cartels, on cognitive frames, such as economic theories, or taken-for-granted routine knowledge.

The third problem, of cooperation among market actors, arises out of a deficit of knowledge about their exchange partners' intentions and the quality of the products. Central to this coordination problem is the notion of trust. While economists approach the issue by game theoretical considerations, contending that cooperation is a rational strategy in repeated interactions, economic sociologists focus on explanations including power relations, social networks, and normative or cognitive commitment to institutionalized rules as keys to explaining cooperative behaviour (Axelrod 1984; Beckert 2009).

With reference to the above discussed coordination problems, this article will focus on how values are assigned to art objects and how prices for such objects are decided among dealers.[1] Furthermore, the findings demonstrate how Japanese antique dealers have developed complex price-making mechanisms to regulate the competition among themselves over scarce resources. Finally, the cooperation problem will be addressed by a discussion of the rules about access to art dealers' associations and particular auctions and cooperative practices among dealers in and outside of the auction room. With regards to all three coordination problems, the article will highlight how issues of inclusion/exclusion, status, reputation, networks and hierarchies impact upon the way in which these coordination problems are addressed.

After these theoretical considerations, let us shortly turn to the very limited existing literature on the contemporary Japanese antique art trade. While the mechanics of purchase and issues of cost are nowadays part of Western art historical discourses, such issues have so far barely been addressed for Japan (Screech 2007). There are a few academic sources on aspects of the Japanese antique art trade, but these are largely historical accounts, focusing on the emergence of an independent art trade following the dissolution of large daimyō collections in the Meiji period (1868–1912) and the fate of early important dealers and collectors (e.g. Guth 1993; Segi and Katsuragi 2003; Kuchiki 2011). Furthermore, there are numerous books by Segi (e.g. 1987; 1991; 1998) on the market for modern and contemporary art in Japan, with a particular focus on price developments, but only one book addresses, albeit very briefly, the role of art dealers' associations (Segi 1987). Other relevant sources, to which we will refer shortly in the findings section, are Segi's compilations of primary historical materials, such as art rankings (*bijutsu banzuke*) (Segi 2000; 2007). Excellent sources for information on historical auction prices and historical overviews of Japan's largest art dealers associations have been published by the Tokyo and Osaka Art Dealers'

Associations (Tōkyō Bijutsu Kurabu 2006; Ōsaka Bijutsu Kurabu 2012). However, even these sources offer almost no material for the investigation of the issues that are at the heart of this project.

Researching a Japanese market

Besides the above-mentioned limited literature sources, the findings of this article are primarily based on the analysis of interviews with antique art dealers in Japan. Arranging these interviews proved more challenging than the author, himself a long-term antique collector, had originally envisaged. A snowball approach in identifying informants proved, at least initially, unsuccessful. A few acquainted dealers were asked for their cooperation in being interviewed and in introducing other dealers, but while the majority agreed to be interviewed themselves, most rejected more or less explicitly the idea to help with the arrangement of other interviews. As it became clearer during the course of the project, and as will be elaborated on in more detail in the findings section, this was not a sign of unhelpfulness but had more to do with a dealer's status in the implicit dealers' hierarchy in Japan. The author was eventually able to gain the cooperation of a few high status dealers, who proved invaluable in gaining access to others of similar or lower rank. These dealers' endorsement of the author as a trustworthy individual made it possible to interview informants outside the author's own collecting area to gain a comprehensive picture of the antique art trade. Between October 2012 and January 2013, the author conducted twenty 'formal' one- to two-hour semi-structured interviews and eleven informal interviews. To ensure validity, a triangulation of data was conducted by raising key issues with multiple interviewees (Yin 2003). Most of the 'formal' interviews were recorded with the prior consent of the informants. All informants were assured that they would remain anonymous.[2]

Japan has five major antique art dealers' associations, in Tokyo, Osaka, Kyoto, Nagoya and Kanazawa. Even though each of these cities has several hundred dealers (members and non-members of the art dealers' associations), the number of dealers at the higher end of the market is much more limited. Given that most interviews, except those with dealers at the very top end of the market, were arranged through other dealers as go-betweens, the author deems it necessary to withhold here the specializations and even the city locations of the informants in order to protect their anonymity. All 'official' informants are identified by number.

Given the closed-shop character of this market, the author was unfortunately only able to briefly attend one dealers-only auction in person (April 2014). However, he was also able to view some unpublished video material of such auctions, consult with an art historian who has also observed them in person and was able to refine and verify his understandings of these practices with several informants in follow-up interviews in April and June 2014.

The Japanese antique art trade

Before addressing in detail the specific coordination problems of the market actors along the theoretical framework presented above, the next section initially presents an overview of the relevant market structures.

Overview

Definitions of what constitutes an antique object vary. For the purpose of this project, the author follows a relatively wide Japanese understanding, according to which antiques comprise 'old art and objects with a rarity value' (Sanseidō 1993, p. 890). Japanese antique dealers usually consider the Meiji period (1868–1912) as a cut off point for the distinction between 'new art' (*shinbijutsu*) and 'old art' (*kobijutsu*) (Marui 1993, p. 2).

The legal hurdles to becoming an antique dealer in Japan are not particularly high, nor is there much government regulation – with the exception of the sale of objects that are designated as important cultural property (*Bunkazaihogohō Articles 32, 44*). Any Japanese citizen or long-term resident can apply to the local police station for a trading license in 'used goods' (*kobutsushō kyokashō*) and will – provided that he/she has legal capacity, has a fixed address and no recent criminal record (*Kobutsu Eigyōhō Article 4*) – be issued with such a certificate. *Kobutsushō kyokashō* are needed to deal in virtually all kinds of 'used goods' – ranging from old planes to resold art (*Kobutsu Eigyōhō Article 2*).

There are no systematic data on the number of people dealing in antique art objects, but there are certainly several thousand countrywide. Every day dozens of dealers-only auctions (*kōkankai,* literally 'exchange clubs') are held somewhere in the country. The minimum requirement to enter such dealers-only auctions is a *kobutsushō kyokashō*, but access to auctions for goods of higher commercial value, including antique art objects, will commonly be by application only and requires that other participating dealers agree in writing to act as joint guarantors (*rentai hoshōnin*) in case a dealer damages goods or cannot meet his financial obligations towards the auctioneer or seller. Depending on the quality level of such auctions, an art dealer needs to find between four to ten joint guarantors who need to agree to cover any potential damages (informants 1, 2, 3, 9, 11, 12, 14, 15; Marui 2004).

Inclusion in such auctions thus requires enormous mutual trust among the participants. Moreover, depending on the auction, other participating dealers can turn down an application for membership even if sufficient mutual guarantors are willing to support a new dealer. The standing of a sponsoring dealer, who puts a new dealer's application forward, is thus of utmost importance. If the sponsoring dealer has a high status, other dealers are unlikely to challenge such an application. Some dealers reported that they knew of cases where people had gained the cooperation of high status dealers by buying them off (informants 2, 6, 8, 12, 13, 18).

At the apex of this dealers-only auction system are auctions in which only members of the five largest art dealers' associations in Tokyo (ca. 500 members), Osaka (ca. 430 members), Kyoto (ca. 360 members), Nagoya and Kanazawa (ca. 200 members each) can participate (Marui 2004). Long-established high status dealers are often members of several or even all five associations.

The art dealers' associations are organized as cooperatives under the Small and Medium-Sized Enterprise Cooperatives Act (*Chūshō Kigyō Tō Kyōdō Kumiai – Hō*). Members are thus only family-owned businesses with fewer than fifty employees and a capital of 10 million Yen. While a clear categorization is difficult, the associations' dealers focus either primarily on post-Meiji period art (largely excluding contemporary art) or pre-Meiji period art (primarily pre-historic art, Buddhist art, tea ceremony utensils, lacquer ware, Oriental ceramics, as well as Oriental paintings and calligraphy). It is the latter group with which this article is primarily concerned, even though a few informants deal with both modern and antique art objects and four are not members of any of the five dealers' associations.

While gaining a general trading license (*kobutsushō kyokashō*) is comparatively easy for any aspiring antique art dealer, penetrating and gaining status in the social network of dealers and becoming a member of one of the five major art dealers' associations and accessing their auctions is much more difficult. Although membership is reliant on good personal relationships with and support from fellow dealers, it is important to note that there are no explicit controls of membership numbers in the associations. A common route into this network is through apprenticeships, which are directly arranged between the dealers and the apprentices and do not involve any external oversight by trade bodies or educational authorities. The arrangements in terms of compensation and work content are quite varied and often not even fixed by formal contracts. Several informants explained that a typical apprenticeship would in the past, up until about the 1950s and 1960s, have lasted at least ten years, while nowadays durations of three to five years are most common. It is not unusual for apprentices to come from backgrounds unrelated to the established dealer system, but, especially in the case of dealerships spanning several generations, apprentices are often the sons (very few daughters) of fellow dealers in other cities. Dealers from the Kansai region (Osaka and Kyoto) are likely to send their children to Nagoya or Tokyo and vice versa. These apprentices are often expected to return to and eventually take over the family business, while 'outside' apprentices might aim to establish their own dealerships (informants 1, 3, 4, 7, 9, 10, 11, 14, 17, 20).

Apart from dealers-only auctions, there are also open auctions in which private individuals can participate. However, if compared with the situation in the West, open auctions are overall far less important in terms of the value and quantity of the turned over goods. In this respect, the assessment of London-based Giuseppe

Eskenazi, one of the world's leading dealers in oriental art, is enlightening. Commenting on the efforts of Christie's and Sotheby's, the world's largest auction houses, to break into the Japanese market since the 1960s, he explains: 'All the auction houses found it very difficult to source items locally in Japan. They were often politely rebuffed if they attempted to contact the collectors directly; and if they went to the dealers, they were usually offered rather second-rate goods, as the trade preferred to keep the best items, either their own goods or their clients', to enter into the traditional dealers' closed auctions' (Eskenazi and Elias 2012, p. 79). The situation has not changed considerably in recent years, but a few new open auction houses, such as Tokyo Chuo Auction (established in 2010), have entered the scene and now conduct auctions focusing on the currently booming market for Chinese antiques, where both Chinese dealers and collectors are the primary customers. Sotheby's and Christie's maintain only representative offices in Tokyo.

Valuations

How do Japanese dealers establish values and prices for the objects of their trade? Literature in the sociology of arts maintains that aesthetic, artistic, or cultural values are socially constructed. Even though art historians and collectors might challenge the narrow view that artworks do not have any intrinsic values, there is ample evidence that such values are dependent on the social context in which artworks are produced and consumed (Becker 1984; Zolberg 1990).

Since (antique) art objectives are, like products of the cultural industry and professional services, by and large 'singular goods' (Karpik 2010, p. 10), actors' value judgements about an object's quality cannot simply be made with reference to existing scales of evaluation, as they exist in 'standard markets', like gold or wheat markets. Karpik (2010) has suggested a typology of what he calls *judgement devices* that enable market actors to assess quality and thus value in markets for such 'singular goods'. He distinguishes five devices: *Networks* can provide actors with trustworthy information in markets where the value of a commodity is not easily measured. *Cicerones* refer to expert critics and guidebooks that 'embody a soft, symbolic form of authority' (Karpik 2010, p. 46). Especially in art markets, where objective standards of quality are difficult or even impossible to establish, quality is constructed by participating actors, such as dealers, museum curators, art critics, art historians, and collectors. With the term *confluences*, Karpik refers to techniques used by firms to channel buyers, such as locational choices, spatial organization, displays and selling skills. *Rankings* reduce the complexity of offers into a single scale, often mimicking objective standards. Finally, *appellations* include labels such as designations of origin, certifications, brands, and professional titles, which are scrutinized by independent third parties. Examples for such appellations are Roquefort cheese or certified fair trade goods.

Many of the interviewees found it difficult to explain how they arrive at value judgements about the objects of their trade. However, piecing together the various responses, it appears that all of Karpik's judgement devices are at work: dealers are influenced by historical value judgements about artists, but are also actively shaping such judgements through their practices. Rankings of artists and guidebooks on the perceived qualities of artists have been published in Japan at least since the Edo period (1603–1868) (Segi 2000; 2007). For example, Segi (2007, pp. 22–27) discusses a seven-volume *Compendium of Appraisals of Painters of Ancient and Modern Times* (*Kokon Shoga Kantei Benran*) published in 1855. The implicit rankings of artists in this compendium reflect to a large extent the current value judgements of dealers of antique paintings. For example, in the case of Edo-period literati painting, artists such as Yosa Buson (1716–1784), Murayama Ōkyo (1733–1795) or Ike Taiga (1723–1776) are typically named as being most desirable (informants 3, 7, 11, 12, 15, 17).

However, there are also artists such as Itō Jakuchū (1716–1800) or Soga Shohaku (1730–1781) who have historically received comparatively less attention and whose appraisal in the dealer's community increased considerably after the 1980s (informants 3, 7, 12, 15). While it is difficult to disentangle the different factors that have contributed to this increased interest, it appears that a few distinguished foreign collectors, museums and art critics, followed by their Japanese peers, have been active *cicerones* shaping these new valuations and ultimately the rankings. Once dealers had realized that these artists' valuations were on the rise, they became active purchasers and cooperated in lending their pieces to museums in a joint effort to enhance the public's valuation of these artists. Several of the informants stated that they are actively lending pieces to public art exhibitions as this is likely to raise future sales prices (informants 3, 7, 12, 13, 15, 18).

Appellations play an enormous role in the Japanese antique world, in particular for objects related to the tea ceremony. The vast majority of the 2.3 million Japanese who are currently reported to engage in the powdered tea (*matcha*) ceremony are members of one of the country's three largest tea ceremony schools (Urasenke, Omotesenke, Mushakōjisenke). These schools are headed by tea masters (*iemoto*) who claim their authority from real and sometimes fictitious familial relations ranging back to the 'patron saint' of the practice, Sen Rikyū (1522–1591). When the *iemoto* system took shape in the late seventeenth century, the leading tea masters developed intricate and highly profitable mechanisms to extend their authority over the preparation procedures and the use of appropriate utensils. By signing the tea objects directly with their cypher signatures (*kaō*) and/or inscribing their accompanying boxes (*hakogaki*) several generations of tea connoisseurs – with the *iemoto* representing the highest authority – have asserted their aesthetic authority over what are considered to be appropriate objects and have influenced their production and sale (Surak 2011). Dealers in antique tea ceremony utensils therefore pay considerable attention to whether objects are accompanied by appropriate, sometimes multiple, signatures from tea masters and/or collectors to certify their authenticity and to establish exalted provenance. While the *hakogaki* of 'authorities' and former collectors also play a role in the paintings trade, the large number of objects of very similar physical qualities in the tea utensil trade makes such certification there even more important. Prices of objects with appropriate certification can easily be several times more expensive than objects of similar physical qualities lacking such pedigree (informants 4, 6, 8, 9, 12, 16).

Networks are yet another device to assist a dealer in evaluating the quality of an object. Dealers will commonly purchase items from collectors or at auction (usually as part of a larger group of works) on which they do not have expert knowledge, since these items fall outside their main area of dealing. They will then seek the advice of more knowledgeable colleagues, whom they know through their regular auction interactions, and often sell such objects in a collaborative effort through their peers (informants 6, 7, 11, 12, 15, 17). This issue will be addressed in more detail below in a discussion of the collaborative aspects of the trade. Networks do not just help to establish value (in the sense of 'reading' it from the object); they can also be used to confer value (in the sense of granting it out of symbolic power). Having a good connection to an *iemoto* can mean that one can easily get a *hakogaki* which in turn functions as an appellation to establish value and ultimately influence price.

Finally, confluences appear to be particularly relevant in the tea world, where important dealers frequently host tea gatherings, which, if attended by an *iemoto* or recognized teacher, can elevate the status of the used utensils. Another example is art exhibitions hosted by dealers in high-class department stores, so that the store brand helps to endorse the value of the exhibited art works (Holland 1997).

Pricing

While the valuation of art objects naturally influences the demand for such pieces, the pricing is far more complex than a micro-economic view of prices as a result of aggregate demand and supply would suggest. Prices depend on price mechanisms that are, just like values, socially constructed (Aspers and Beckert 2011). In a state-of-the-art review of the sociological literature on pricing, Beckert (2011) distinguishes three dominant approaches. One school of sociologists has concentrated on the role of networks in pricing mechanisms, focusing on the influence of power relations (e.g. Yakubovich et al. 2005), trust (e.g. Uzzi 1999) and status (e.g. Podolny 1993). Another dominant approach has been to investigate the cultural dimensions of pricing, such as normative preconditions necessary for goods to become legitimate objects of market exchange (e.g. Zelizer 1979), preferences (e.g. Smith 1989) and expectations (e.g. Caliskan 2007). Finally, a less dominant group of sociologists has focused on the institutional regulation of prices through direct regulation of competition (e.g. Engels 2006).

The findings of this research project demonstrate the merits of considering the status and power dimension in an investigation of price making in a market. Moreover, particular characteristics associated with the marketed assets are shown to shape these mechanisms. While Japanese dealers sometimes buy objects directly from customers, the most important way of purchasing is via dealers-only auctions. Antique art objects are risky investments. While post-Meiji period painters' pieces are sometimes sold with reliable authentication certificates issued by the Tokyo or Osaka art dealers' associations, most of the objects of the trade do not carry such certification and there are no institutions that would perform such authentication (Marui 1993). Depending on the genre and the historical popularity of artists, there are usually thousands of fake or copied objects in circulation. While box inscriptions (*hakogaki*) or documents of tea masters and former collectors can sometimes help in establishing authenticity, such inscriptions and documents are also often faked, copied, the result of complacent appraisals or simply unreliable since former connoisseurs did not have access to reliable information. It is therefore not unusual for dealers, even those with many years of experience, to sometimes buy pieces that, at closer inspection, turn out to be of a questionable nature. More honest dealers might resell such pieces at dealers' auctions, while others will sell them to final customers at more or less discounted prices. It is also important to note that there is a large grey zone of objects where proof of authenticity remains elusive and dealers act in more or less good faith. Moreover, there is a demand from collectors for pieces of questionable authenticity because these are often, albeit not always, cheaper. A few dealers, mostly outside of the dealers' associations, have thus 'specialized' to a certain extent in such objects (informants 2, 5, 6, 9).

The high risk of fakes and a limited supply of high quality material are also important reasons behind complex pricing mechanisms at dealers' auctions. There are basically two types of mechanisms, ascending open-outcry auctions (in the auction literature referred to as 'English auctions'; in Japan simply called *seri*, 'auctions') and sealed-bid auctions. Sealed bids are submitted by writing a price inside a small bowl which is then turned upside down and submitted to the auctioneer. This type of auction is referred to as *wanbuse* ('upside down bowl').

The simplest form of a *seri*-type auction is similar to an 'English auction' in the sense that the artwork is sold to the highest bidder at a price equal to his or her final bid. While such simple *seri-type* auctions have become more frequent in recent years, and the great bulk of objects are in fact sold in this way, a more complex mechanism, where the *seri* is combined with lottery drawings (*kujibiki*) continues to be used for perhaps about one per cent of all objects. In this system, the highest bidder initially (*otoshinushi*) does not automatically 'win' the auction but can be challenged by under-bidders (often only those who have bid above a predefined price limit) into a lottery draw. Let us consider an example to explain the mechanism (informant 11): the *otoshinushi* has made a final successful bid of 10 million Yen, bidding has ended, and the auctioneer is about to proceed to the next item. Suddenly, 10 under-bidders challenge the right of the *otoshinushi* to buy the object for 10 million Yen. They demand a lottery draw to decide who should be allowed to buy the object at this price. If challenged into such a lottery draw, the *otoshinushi* has to comply with the request of the under-bidders, if the auction does in principle allow such lottery drawings. However, the lottery draw is not simply conducted to decide who gets to buy the object at 10 million Yen, but is simultaneously used to decide who gets to be paid a wager for not being able to buy the object – as a form of compensation for losing the lottery draw. Before the lottery can take place the *otoshinushi* has to propose the amount of this wager. When deciding this amount, he will consider unwritten regional customs, his potential profit margin after all associated costs, the number of challengers and his commitment to securing the object. His proposal is made openly and followed by all auction participants, who might comment on the appropriateness of the suggested wager. For example, somebody might shout: 'Make it higher, why are you so cheap, the object is going to 'die'!?' (informant 9). This shows that the *otoshinushi* has to balance his desire to offer a low wager and the peer pressure of those who realize that the market value of the object is possibly considerably higher than the winning bid of 10 million Yen. In any case, a total wager sum of 5 to 10 per cent of the highest bid appears to be common. Referring to our example, the *otoshinushi* might thus propose a wager for the lottery draw of 50,000 Yen for each loser. (Note that, unlike in common lotteries, the losers receive a payment!) In other words, if the *otoshinushi* loses the lottery, he and the other losing under-bidders will receive 50,000 Yen each from the lottery winner who gains the right to buy the object for 10 million Yen. However, the *otoshinushi,* if still interested in the object, retains in some auctions the right to challenge the winner of the initial lottery for subsequent draws. In this example, he might suggest a second draw with the winner of the first draw over a 500,000 Yen wager (the other under-bidders have no right to take part in the second draw). If the *otoshinushi* wins this final draw, he needs to pay $8 \times 50{,}000 = 400{,}000$ Yen to the losers of the first draw, 500,000 Yen to the loser of the second draw and 10 million Yen for the object to the seller. If the *otoshinushi* loses he can either accept 500,000 Yen from the winning party, who also pays off the losers from the first lottery and buys the piece or, depending on the rules of the particular auction, possibly challenge the winner for yet another draw of an even higher wager. We discuss the reasons behind this complex auction mechanism below, but before this we need to introduce the second type of dealer's auction.

The *wanbuse*-type or sealed-bid auction method used in Japanese art dealers' auctions differs from the first-price or second-price sealed-bid auctions as they are described in auction literature (Milgram and Weber 1982). In a first-price sealed-bid auction the highest bidder claims the object paying the bidding price. In a second-price sealed-bid auction (Vickrey auction) the highest bidder claims the object, but pays only the amount of the second highest-bid. While the latter type of auction might appear to be counter-intuitive from a seller's perspective, the economic literature has demonstrated that this arrangement does not necessarily lead to a loss of seller's revenue. The reason is that bidders in first-price auctions are often trying to guess what the next-highest bid will be so that they can bid just a little bit more. They will thus shade their real valuations. Bidders in second-price auctions, on the other hand, have an incentive to bid their full reservation values and generally place higher bids than they would in a first-price auction (Milgrom and Weber 1982; Subramanian 2012). The *wanbuse*-type auction, as used in some Japanese antique dealers' auctions, differs from these types of auctions as the auctioneer will here, at his full discretion, announce a price that lies somewhere between the highest and second highest bid. When deciding this price, the auctioneer will consider what he believes to be a fair market value of the object, the need to pay the seller a satisfactory price, the need to keep his bidders happy, the experience of the bidding dealers, and his own commission. For example, a less experienced dealer, who has put in a bid that is substantially higher than the second highest bid from a more experienced dealer, might be lucky to find the auctioneer announcing a price that is closer to the second highest bid than to his own bid. This gracious behaviour will only be known to him and the auctioneer (the second highest bidder and the seller will not know). The auctioneer could, of course, always maximize the seller's profit and thus his own commission, but by 'taking care' of a less-experienced dealer in this fashion, he is likely to have secured a long-term participant for his auction (informant 12). This example resounds well with Heath's and Luff's (2007) findings on the significance of social interactions in auction markets and shows that actors are not simply pursuing short-term profit maximization. If not challenged into a lottery, the highest bidder in a *wanbuse*-type auction will pay the announced price and secure the item. However, just as in the open-outcry auction described above, the under-bidder(s) can commonly challenge the highest bidder into a lottery about the right to buy the object. Regardless of the type of auction, the auctioneer pays the seller after charging a certain percentage of the sales price (which varies, according to region and auctions, between 4 to 10 per cent) (informants 2, 11, 19, 20).

What are the reasons for these complex auctions-cum-lottery mechanisms? Fundamentally, from a seller's perspective, the use of lotteries limits their profit potential, because bidders have an inherent incentive to shade their real valuations during the auctions in the hope that they can subsequently secure the right to buy an object through less costly lottery draws. One dealer estimated that bidders go up to around 80 per cent of what they consider to be a fair price in light of a possible retail value before the lottery system kicks in, but claimed also that one could not conclude that objects were therefore necessarily always cheaper in auctions with lotteries (informant 12). Bidders, on the other hand, want to limit their financial exposure related to the risk of buying artworks of questionable quality. Given the closed-shop character of Japanese dealers' auctions and a lack of alternative avenues for sales of higher quality antique art in Japan, it is probably fair to conclude that sellers have historically been somewhat disadvantaged.

However, dealers are ultimately reliant on the supply of quality material and have therefore started to make concessions to sellers' requests, over the last ten to fifteen years, to reign in the use of lotteries (informants 3, 6, 9, 11, 12, 17, 19, 20). While lottery draws used to be very common at all types of auctions in the past, the Tokyo, and subsequently the Osaka, art dealers' associations have in recent years limited the use of lotteries in their auctions to objects of a minimum value of 2 million Yen. Moreover, they allow now only one round of lottery draws instead of the multiple rounds that were prevalent in the past (informants 1, 3, 7, 9, 11, 15). It is, however, important to note that these associations' auctions make up only a small percentage of the auctions that many dealers, regardless of their status, will visit and that lotteries continue to be widespread in these other auctions. Moreover, at the auctions of the Kyoto art dealers' association, lotteries continue to play an important role (informants 5, 6, 8, 9, 11). One consequence of this is that certain material is now more likely to be sold in Osaka or Tokyo, since it is likely to fetch higher prices there, and that the overall volume and quality of objects in Kyoto has been declining (informants 3, 7, 10, 11, 14). Nevertheless, dealers participating in the Kyoto auctions, which handle predominately tea wares, are adamant that the lottery system should continue (informants 6, 12, 16). In fact, while some dealers question the need for lotteries as part of the price making process (informants 5, 11), most informants, across all genres and regardless of their locations, consider it to be an important practice. What explains this attitude?

The dealers do generally not believe that objects should always go to those members of the trade who have the deepest pockets. Instead, given a limited amount of quality material, they consider it important that prices and allocations are moderated so that all members of the dealers' community have a fair chance of making a living. This means that everybody should be able to buy higher quality objects in their area of specialization and that those not prevailing should be able to recover at least some of their participation costs, e.g. travel costs (informants 3, 4, 9, 12). As one dealer, who is incidentally also an organizer of a dealers-only auction with lotteries, put it succinctly, 'the lottery system secures equality' (informant 12). While the lottery system has been used since the Meiji period (Ōsaka Bijutsu Kurabu 2012), one dealer noted that it had been strengthened in the 1960s and 1970s in response to one particular dealer, who was frequently able to outbid his peers (informant 5). However, it is important to stress that only perhaps about one per cent of objects are sold using lottery drawings and that they are mostly used for middle level objects. The reason seems to be that cheaper goods offer few potential benefits in terms of compensation through the wagers, while the most expensive objects are beyond the means of most dealers, who are thus unable to contest the high offers of the wealthiest traders.

In sum, while the auction-cum-lottery system is likely to suppress prices of some material to the advantage of the buying dealers, it enables the management of competition over scarce resources, which are additionally associated with a high risk of fakes. However, one should not reduce the analysis of the auction-cum-lottery system simply to these economic aspects, which are linked to the specific challenges of the antique trade. Several informants also pointed to the playful social aspects of the different types of auctions and lotteries (informants 9, 11, 12, 18, 20). One dealer considered the lottery system an expression of Japan's 'play culture' (*asobi no bunka)* (informant 12).

Moreover, status and power-relations clearly have an impact on price making. Status in the dealers' world can either be *ascribed status*, which is most commonly gained through kinship ties that place somebody in a famous, long-established shop, or *achieved status*. Even though the informants had rather vague ideas about what constituted status in the dealers' world, it appears to be primarily a function of membership in the dealers' associations, expert knowledge, the perceived quality of a dealer's wares, financial success and access to rich clientele. The way status plays out in auction room interactions was nicely illustrated by some lower status dealers. They complained that, regardless of their ability and willingness to pay a specific price, they found it at times difficult to challenge higher status dealers (primarily those with an ascribed status) for a lottery draw, while the latter might at times use their status power to demand multiple lottery draws to secure a desired object (informants 2, 5, 12, 17, 20).

Competition

The above discussion of the auction-cum-lottery mechanisms has demonstrated how dealers manage the competition over scarce resources through their price making arrangements. However, competition in the market is also directly regulated by the (unwritten) rules about the use of information and the access to the dealers' network.

As explained above, a common way of entry into the dealers' network is through an apprenticeship. There are commonly no written agreements about how a former apprentice can use information gained during his tenure. However, this does not mean that a new dealer can simply access clients known to him from his time as an apprentice. Even though some dealers are known not to object to a former apprentice's use of such information, a number of informants related stories about how their former employer had to 'approve' sales to old customers or how they were restricted in sending sales catalogues to such clients after they had opened their own shops (informants 4, 11, 18, 19, 20). One informant explained how an acquaintance had already purchased and started to rebuild a property to open his own dealership, when the intervention of his former boss brought everything to a sudden halt (informant 1). Even though a former employer has little legal means to restrict any such activities, the informal power of a long-established dealership is considerable.

The business opportunities of a former apprentice are severely restricted if his employer discredits him among fellow dealers. Moreover, simply not supporting a former apprentice can have serious consequences, as the following example demonstrates: in order to become a member of the art dealers' associations one has to fulfil a number of criteria. First, a dealer is supposed to have maintained his own business premises for at least ten years. However, this requirement is often waived if one has worked for many years at a high status dealer (informants 7, 10, 12). Secondly, the former employer needs to issue a letter of recommendation to the art dealers' association at the location where the dealer maintains his business. One informant, who had worked in a responsible position in a highly reputable dealership, related his difficulties in convincing his former employer to issue such a statement, even though they had parted on good terms. This difficulty prevented the dealer from becoming a member of any of the big five art dealers' associations for more than fifteen years, as one has to first enter the association at one's place of business, before one can then potentially enter any of the other four major establishments. Only after a number of befriended dealers exerted moral pressure on his behalf was he finally able to receive a letter of approval and enter several associations (informant 11).

As in other markets, Japanese antique dealers seek to insulate themselves from competition by some form of product differentiation, which means that they will frequently concentrate either on a particular genre and/or material of a certain price level. This is especially important when other dealers have their shops in close physical proximity. Although the geographical location of art dealerships in the five cities is quite disperse, there are historically a number of shop clusters, such as the Kyobashi and Roppongi districts in Tokyo, the Kitahama and Koraibashi districts in Osaka, and the Shimonzen/Furumonzen and Teramachi districts in Kyoto.

The issue of product differentiation is related to how dealers protect their self-claimed domains by what they spoke of as face (*mentsu*) saving acts. A number of informants related experiences during auctions in which they felt that they had to assert their 'ownership' of a particular genre or domain by bidding on objects in which they were not particularly interested so that other dealers could not get their hands on them. This behaviour does not only prevent other dealers from offering material to one's own clients, but also signals to the sellers' community that one is actively buying a particular genre. The sellers will thus be encouraged to actively seek and bring such material to future auctions and one is then also often in a moral bind (*giri*) to buy their objects, even if they might not always meet one's quality standards (informants 6, 11, 12, 16, 20).

Cooperation

Given the important role of network ties to secure membership in the art dealers' associations, it is not surprising that those inside these networks show strong commitment to the rules of the market. Even though some informants had experienced hardships related to uncooperative former employers in setting up their own dealerships, none of them seriously questioned the rationale of the closed and implicitly hierarchical system, which shields them ultimately from more competition and gives them access to auctions with objects of the best available quality. This finding resounds with Fligstein and McAdam's (2012) assertion that the stability of hierarchies depends on the reward for compliance with the hierarchical order. Moreover, the strong network ties allow different forms of cooperation.

One aspect of cooperation is bid-rigging (*dangō*) in auctions. Even if there are numerous dealers in an auction, depending on the nature of an object, the potential number of interested dealers can be small. Since these dealers have a mutual understanding of each other's interests, they might agree in advance to limit their competition in an upcoming auction. One dealer will be designated to buy the piece and the subsequent profit from selling it to a customer is shared among the members of the bid-rigging consortium (informants 5, 6, 11). Bid-rigging can also mean that a group of dealers agrees to bid up the price of an object that is sold by one of the members of the consortium in return for an agreed percentage of the final sales price (informants 2, 5, 6).

Yet another form of cooperation is the pooling of resources to buy objects that are beyond the means of a single dealer. Just as in the case of bid-rigging, the participating dealers will agree in advance on their respective profit shares from a subsequent sale by the dealer with the most promising client base (informants 5, 6, 11).

Finally, cooperation among dealers can be important to protect objects from losing their 'innocence' or 'virginity' (*ubu*). Dealers often describe an object as having an *ubu* quality. This can mean several things, not least because there is no precise definition and dealers use the term differently: first, it can relate to the physical aspects of an object, usually meaning that it is in its 'original' condition and has never been remounted (in the case of painting or calligraphy scrolls), repaired or otherwise intentionally altered. However, some dealers might use *ubu* to simply refer to an old mounting, old box or nice patina. Secondly, it can relate to the fact that an object is new to the market, usually because it has not been offered for sale for many years. Objects that combine these two aspects are most desirable and fetch the highest prices, because collectors always like to be shown 'new' material, ideally with nice patina and exalted provenance (informants 1, 2, 5, 11, 17, 19, 20). Cooperation among dealers can protect objects from losing their 'innocence' too quickly. For example, an object that has been published in a widely circulated dealer's catalogue but fails to sell might subsequently be difficult to trade, because buyers – dealers and collectors – rightly or wrongly, assume that there must be something 'wrong' with it. To prevent this from happening, dealers collaborate at times across cities and exchange objects between themselves to show them to different clienteles that are also unlikely to visit the other dealership. In this way, the objects remain 'fresh' to the market and retain a higher price potential (informants 2, 4, 6, 13, 17).

Conclusion

This article has sought to shed light on the hitherto understudied Japanese antique art trade. Informed by recent theoretical contributions by Beckert and Aspers (Beckert 2009; Beckert 2011; Aspers and Beckert 2011) we have focused on three distinct coordination problems that Japanese antique art dealers have to confront: *valuation*, *competition* and *cooperation*. While our discussion of the findings has detailed several economic aspects of these coordination problems, it has also demonstrated how issues of inclusion/exclusion, status, reputation, networks and hierarchy play an enormous role in creating the social order of this particular Japanese market and how these issues impact on the way these coordination problems are addressed.

To start with, in terms of the valuation problem, the findings highlight the importance of distinguishing between notions of value and price in our understanding of markets. Both value judgements and prices are demonstrated to be socially constructed, but the underlying mechanisms are different. Value judgements are made via networks, cicerones, confluences, rankings, and appellations. While value judgements influence demand and supply conditions, price making does not simply reflect these conditions. Instead, prices are the result of complex price making mechanisms which the actors have shaped to address particular market challenges, but they are also influenced by status and power as they are socially constructed through the mechanisms of inclusion and exclusion in the art dealers' associations. While economists focus primarily on the price-maximizing function of auctions, our findings highlight that auctions can also function as price moderating and allocative mechanisms influenced by the social order of the participants. These findings are in line with what Smith (1989) has found for US American commodity auctions, where both prices and allocations are also actively managed and influenced by status hierarchies. In terms of the competition problem, the article has underscored the important function of the art dealers' associations in channelling scarce resources to a limited membership. The five major art dealers' associations are at the apex of a hierarchal trading system where inclusion is strongly dependent on reputational and network resources. As organizers of the most important dealers'-only auctions, with their intricate price making mechanisms, the dealers' associations manage, and to a certain extent limit, competition over resources. Finally, in terms of the cooperation problem, the article has shown how the strong network ties, which shape and are shaped by the dealers associations, allow dealers to engage in cooperative practices such as bid-rigging and strategic placement of art objects to protect their 'innocence' (*ubu*).

Let us finally consider how the findings of this project compare with those on other Japanese markets. Gerlach and Lincoln (1998) point out that Japan's social order has commonly been described as being characterized by strong personal, obligatory, and diffuse relations, while 'legal-rational' institutions of competitive markets or court-ordered contracts are less common and consequential than in the West. Vertically-ordered interpersonal bonds, in-group cohesion and out-group separation have been common themes of social structure research (e.g. Nakane 1970). Research on Japanese industrial structures has identified strong networks both within (co-worker ties) and among (long-term supplier relationships with relational contracting, cross-shareholdings, dispatched directors) large firms (Dore 1973; Lincoln and Gerlach 2004). Similar findings have been generated by Bestor's (1998; 2004) work on the social organization of Tsukiji's fish market, which is largely dominated by small-scale businesses.

The findings of this project confirm the importance of strong personal ties and the network character of Japanese business organization, but appear to resonate particularly well with Bestor's findings. Even though the fish market differs in terms of the strong influence of government regulation on the market structure, which is insignificant in the case of the antique trade, both markets share significant similarities in terms of the dominance of family firms, varying and complex auction mechanisms, exclusivity of auction participation, the role of trade guilds and licensing, kinship ties, and mini-cartels. In both cases, the complex rules of the marketplace are essentially aimed at preserving all members' relative economic positions and their access to resources. As Bestor (1998, p. 179) points out, Nakane's (1970) societal model of vertical social integration neglects somewhat the strong 'horizontal linkages among relative equals' as they join together around mutual common interests, both in the organization of the fish market and the antique art trade.

In sum, this article confirms the findings of other researchers who have highlighted the strong network character of some Japanese markets and shows how important it is to consider both hierarchical and horizontal ties among market actors. Having said this, every market has its own rules and there might well be other Japanese markets where such linkages play a lesser role or where technological developments render them obsolete. This is the stuff for future research.

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Notes

1. Price making towards customers could not be investigated as dealers are understandably reluctant to disclose such information.
2. Research for this project was conducted only with dealers from the cities with the largest associations, namely Tokyo, Osaka and Kyoto, but the data suggest that the findings apply equally to practices in Nagoya and Kanazawa.

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