Chapter 3
The Economic Logic of Creative Reputations

3.1 The Impossibility of Insurance and Guarantees

Strange as it may seem, the institutions we looked at in the last Chapter are not directly commissioned by anyone to do their work of assessing quality. Consumers do not pay critics for their services, and are accordingly neither their customers nor their employers. Most of their financial support comes from the business community, but this is carefully concealed. They are paid through intermediaries, and their paymasters go to great lengths not to be identified with particular reviews. It is, nevertheless, they who benefit. From a legal point of view, the quality monitoring institutions are independent and autonomous, as they need to be if they are to be capable of doing their job, which requires the right to express opinions without fear or favour, in the interests of consumers. These are not the people paying them, however, so the critics are not financially accountable to them for the quality of their product, that is, for the accuracy of their recommendations. Indeed, this seems to be regarded as little more than a side-effect of their work, although critics and other assessors are accountable to themselves to the extent that they value their colleagues’ opinions and are keen to protect their own reputation. For all that, they are also under an obligation to their sponsors, which means there is clearly a potential for divided loyalties. Somehow or other this rickety vessel stays afloat, but its effectiveness is highly debatable.

There are other ways for consumers to be reassured about quality, that is, to overcome the problem of information asymmetry. That is through guarantees, insurance, branding, stock market valuations, and audit. In utilitarian markets these institutions carry great weight, although they are thoroughly commercial. They do not trumpet their contribution to social welfare but get on with the job in return for an appropriate level of remuneration. These systems are widespread, and there is no mystery about the identity of the paymaster, who is either the reputable section of the business community who bear such costs of a system of guarantees as advertising and branding, or end-users who pay directly for insurance or advice. In the latter case, a business is collecting and forwarding information on quality. Those using and paying for the service are party to a business deal, and those providing the service are required to provide them with accurate information. They are being paid for their work, and are under an obligation to refund fees if they fail to fulfil the terms of the contract. In the real world, ‘lemons’ did not wreck the used car market in the United States because a business solution, car showrooms, was found which undertook diagnostic testing of cars and offered guarantees. A system where payment is straightforwardly made for a good supplied is mutually beneficial. It is more efficient than a trilateral model where work is paid for by one person, performed by
another, and the results used by a third, where the work done only benefits the third party through a kind of ricochet.

There are arguments in favour of both bi- and trilateral advisory systems, but in culture only trilateral systems have developed. Why has not normal commercial practice become established in this sphere, where those providing information are paid directly by the end-users? Why do guarantees and insurance not appear to function in culture? Are they replaced effectively by brand reputation?

As regards guarantees, the obvious problem is that you cannot prove a cultural product is defective, not least because there are no objective criteria of quality, and take it to be repaired. We are not, of course, talking about things like the conservation of paintings, sculptures or other high-value cultural items, but about the consumer quality of newly created works. It is difficult to prove there has been a failure to provide art of satisfactory quality when there is not even agreement about what is and is not art. This would make for a very difficult and expensive lawsuit. A St Petersburg couple did indeed sue over Valerii Fokin’s production of a play after Gogol’s “The Government Inspector”. The point at issue was the disappointed expectations of theatre-goers who had not been warned that no shred of the original remained in this particular interpretation. In general, nobody is going to sue for compensation if a low-cost item proves unsatisfactory, because the cost of enforcing a guarantee would be disproportionate to any likely compensation. The game is simply not worth the candle. This on its own would be enough to explain why guarantees have not taken root in culture.

The same is true of insurance. A digital work does not deteriorate physically in the course of consumption, and how a consumer perceives it is entirely subjective. One can hardly record a user’s body language as material evidence that a work left him cold. It is impossible to register the loss, so you cannot sue for compensation. If you could, anybody might sue without the slightest justification. One further obstacle to insuring against the risks facing consumers of culture is the lack of a scale for quantifying loss. It might just about be possible to register disappointment (perhaps by measuring brain activity), but the idea of quantifying it takes us into the realms of science fiction.

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1 Not only culture but many other areas of everyday life cannot be comprehensively guaranteed. One reason is the subjective nature of perceptions of quality, of which the classic example is whether the colours on a television screen are judged still to be satisfactory after it has been in use for a year.

2 Afficionados of Gogol took particular offence at a number of scenes they considered obscene. In view of the fact that this production of The Government Inspector had played to full houses in many countries and been awarded the State Prize of Russia, the court found against the plaintiffs. See M. Seleznev, “The Court Does Not Find The Government Inspector Obscene” [“Sud ne priznal ‘Revizora’ obraztsom poshlosti”], Novye izvestiya, 28 March 2005. Dan Brown’s bestseller The Da Vinci Code caused a storm of indignation on religious grounds.