

## Chapter 2

# Adverse Selection in the Culture Industries

### 2.1 Consumer Navigation in Culture

Until consumer collaborative filtering arrives, navigation will continue to be the burning issue for present-day culture. There are no books or articles giving clear, systematic consideration of the problem. This is odd, because how well people are able to find their way around in the available offerings of culture directly affects both their aesthetic experience and their outlook on life. Those working commercially in the cultural sphere target as large a proportion of the public as they can, and today the technological tools at their disposal are more powerful than ever before: anything that can be digitised can be delivered almost instantaneously to any place at minimal cost.<sup>1</sup> Cultural goods are universally accessible, but the downside of such profusion is the problem of what to choose.

The manufacturer wants to direct attention to his product and has no inclination to reduce the circle of his potential customers by targeting publicity too accurately. Junk mail deluges the consumer, who cannot tell from the outside of an envelope whether the contents are important or not. He is forced to sift through mountains of information that is of no conceivable interest. Advertising of the most diverse character, quality, and purpose circulates through an informational irrigation system which gushes from radio, television, the Internet, and the press. These may be coordinated or not, may or may not back each other up, but all of them ultimately come up against the limit of what a human brain can assimilate. On the surface there appears to be a great abundance of leisure offerings; the consumer's choice appears to be unfettered; but what is really being held out is freedom to choose the wrong product. The consumer is faced with a smorgasbord of dishes he cannot discriminate between.

At first sight there seems to be no shortage of helpful recommendations: the genre of the entertainment—comedies, thrillers, farce—is clearly documented. Within each genre you can be guided by the reputation of the actors and directors, by the competitions and prizes they have won or failed to win. Yet still people are perplexed, not least by the dilemma of which television programme to watch. The ones they would like to see are broadcast at thoroughly inconvenient times, while peak viewing time is a desert of films with 'universal appeal' or ageing classics which are

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<sup>1</sup>There are many indications that the 1970s and 1980s ushered in the previous period in culture: fashions began to change more rapidly, blockbusters appeared... The next twist of the spiral came towards the start of the millennium with the new Internet technologies, including peer-to-peer networks.

only too familiar. Ploughing through the television guide is an unproductive chore and, faced with five reasonably hopeful films, none of which is a clear winner and all of which are being broadcast virtually simultaneously, half an hour or an hour of channel-hopping is enough to ruin anyone's evening.<sup>2</sup>

Choosing which film to watch on television is not the worst of the consumer's predicaments. Every year there are perhaps a dozen or two films which everyone talks about. You get to hear about another fifty or so by word of mouth, by which time you have probably been alerted to nearly everything that is reasonably worthwhile, if in a fairly haphazard manner. It is a bit of a struggle, but there is a fair chance you will find the films which interest you. When we turn to books the situation is far more dire.

How do you choose the one book out of the hundreds of thousands on offer which you will really enjoy reading without first reading it or at least browsing through it? How helpful are bookshop catalogues, advertisements, the literary prizes? Perhaps readers should just go by the results of the Booker or Whitbread Prizes? Alas, in Russia at least, few readers know what made the shortlist or even who won.<sup>3</sup> Advertising is far more powerful than informed opinion: a thought-through promotional campaign—and Coelho is a classic, Murakami a gripping read, Houellebecq the greatest intellectual in Europe. In 2006 we saw Dan Brown propelled to eminence.<sup>4</sup> Even book publishing, though, is not the most impenetrable jungle—information about good authors and titles does get around and improves your chances of stumbling across a personal favourite. With the theatre the situation is downright disheartening.

If you are not an insider, the chances of missing an outstanding production are high since the critics alert you to major events only after the event. The culture sections of the press provide rear mirror navigation by reviewing performances which have already taken place: 'Yesterday this exceptionally talented German performer delighted his audience. His next visit is three years from now.' If you just take pot luck, you find most performances provide less to delight their audience than the average movie.

The public are, if anything, even more at sea with the contemporary music scene, but this is perhaps unsurprising since the music industry targets primarily a particular sub-species of adolescent.

Am I exaggerating the difficulties of navigation? Are people not managing their cultural leisure time well enough, enjoying music, visits to the theatre, art galleries

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<sup>2</sup>A programme glanced at in passing picks up a point in the viewer figures without advertisers actually being deceived. In reality it would be better for them if commercials did not intrude at some exciting moment and get up the nose of their target audience.

<sup>3</sup>I once asked students at the Moscow Institute of Economics to name one international and three Russian literary prizes. No response. I asked them to name just one. Still no response. I asked who had won a prestigious prize a few days previously, which had been well covered in the press. More silence.

<sup>4</sup>Dan Brown, author of *The Da Vinci Code*, was instantly added to the ranks of the world's foremost intellectuals.

or whatever? Why, if things are so bad, is there no widespread public voicing of dissatisfaction? I fear the absence of debate about the difficulties of making the right choice in culture is itself a part of the problem. People muddle through, or have given up believing there might be anything exciting out there to choose from, or assume it is their own fault for not knowing more about a particular segment of culture.

Some art professionals see no problem of navigation, and argue that the process of choosing is an end in itself. Who is going to deny that finding your way without a guide can be fun: browsing through books, reading advertising matter, surfing the Net, strolling through a new town with no particular end in view other than soaking up the ambience? It can be fun not to rely on other people's recommendations and then to happen upon something unexpected rather than the next sight identified for you by the guidebook. And if you risk missing something important, who cares? But is this grounds for denying the need for maps? Mooching around palls in the end, and then the mapless are doomed to a taxing and inefficient search for the way home.

Writers, musicians and film critics do not need a navigation service. They know their way around their professional habitat, much as native peoples get by without maps of the jungle. And yet, if you ask such a specialist for recommendations in another area of culture, he will be stumped. It seems that those who deny there is such a thing as a navigation problem belong to two extremes: there are those who are amazingly well-informed about a narrow area, and there are those who are just pig-ignorant. The multitude in the middle take what they are given and have no sense of having been cheated. Apart from these contented sections of the populace, however, there are very many consumers of cultural products who are only too aware of the problems of navigation.

Products for the masses—blockbusters, soap-operas and the like—are part of the modern lifestyle. They have no difficulty finding their way to the mass consumer, or he to them. The end result is that this type of product becomes the 'only alternative' which is profitable, and other cultural lines are gradually discontinued as less financially attractive.

At the root of this situation is a failure of navigation which prevents demand meshing with supply. The less widely popular product, which is often more subtle, is failing to reach its territorially dispersed and, as a rule, pickier target customers. In the end these consumers are likely just to give up on the culture markets and find a different way of spending their leisure time. The cultural product which would have met their preferences ceases to be offered on the screen, the stage or the shop counter.

The belief that the problem of navigation in culture is artificial would seem to stem from a belief that these ills are incurable, or from a sense of disappointment with cultural goods in general. That disappointment is, however, itself a product of unsuccessful navigation.

You can spend your time and money and get nothing in return. Your money you can save by giving up on all cultural leisure provision, but time you cannot save. Time cannot be stored, so even just going with the flow entails a cost. Economics

considers how limited resources can best be allocated. It is for the science of cultural economics to provide an answer as to how the consumer's limited resources of leisure time can best be allocated. The issue of cultural navigation is basically a problem of enabling effective choice.

## 2.2 Economics on Culture

The emergence of cultural economics as a separate discipline is usually dated from the publication in 1966 of a book by William Baumol and William Bowen titled *Performing Arts: The Economic Dilemma*.<sup>5</sup> The views of these economists deserve a separate study to themselves,<sup>6</sup> but in the present book we shall focus only on those of their discoveries, and the discoveries of their followers, which bear directly on our topic, which is consumer navigation and adverse selection. They are aspects of a single problem: effective choice.

Economic logic is most at home when there is a clearly defined economic agent with clearly defined resources and aims, and where there is a desire to distribute those resources optimally in order to meet the aims. Business activity in the sphere of culture fits these requirements admirably: the resources are measured in financial terms, and the ends are commercial. No surprise, then, that economists generally view culture from the standpoint of the businessman.

The economist is less at home when resources are calculable but aims are ill-defined. This is the predicament of the state when it tries to formulate its cultural policy. It has a duty to preserve the cultural heritage (a clearly defined aim), but additionally it is expected to enrich the cultural environment and facilitate development of the arts.

These are commendable aims, but which criteria are to be used to assess needs and set forth optimal outcomes? To date nobody has come up with a coherent definition of what the desired outcome in culture is. This means trouble: how is the state to decide which artistic initiatives to support? How should it allocate the culture budget? As things stand, any result could be declared a desirable outcome and hence any expenditure justified in retrospect. The criteria for judging creative products and services have yet to be defined; there is not even general agreement about what is and what is not art.<sup>7</sup> The numerical and financial indicators currently used for quantifying culture are far from satisfactory, so how can we judge the effectiveness of cultural policy?

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<sup>5</sup>William J. Baumol and William G. Bowen, *Performing Arts: The Economic Dilemma*, NY: Twentieth Century Fund, 1966.

<sup>6</sup>Cultural economics now boasts an Association (1979, reorganised 1992), a journal (founded 1973), and a regular international conference (first held in 1979).

<sup>7</sup>See, for example, Boris Groys, "'Bolshoi proekt' kak individual'naia otvetstvennost'" ["'The Grand Project' as Individual Responsibility"], *Khudozhestvennyi zhurnal*, No. 53, 2003, pp. 40–43.

Selecting and coordinating the cultural aims of a society may be difficult but, given sufficient effort, it is not impossible. Once that has been done, the question can be addressed of how to optimise expenditure and what rules of financing to apply. This is legitimately the province of economics, as Baumol's own articles on the economics of art show convincingly. Among the salient points he makes is the simple but important truth that very little has been invested in improving labour productivity in the arts, which has resulted in a loss of competitiveness. Over the past two centuries industrial productivity has increased many times over, but the cost of putting on a music concert remains much the same. Concerts used to last several hours, and still do, and there is no reason to expect any great speeding up in the near future. The costs of live performance in the arts outstrip general inflation. Artists' remuneration needs to rise in line with the overall rise in wages if their profession is to continue, but the revenue from concerts is too little to cover this.<sup>8</sup> There is a gap between revenue and expenditure and cultural institutions are unable to be self-sufficient.

Baumol described this as the 'cost disease', explaining in comprehensible terms to government and the rest of us that culture is not malingering but genuinely ailing and in need of help.<sup>9</sup> The arts have, of course, been receiving subsidies in the past, but thanks to the calculations of economists it is now easier in the United States to do this effectively. There a law encourages sponsorship by freeing money contributed to cultural enterprises of tax. The state forfeits part of its revenues, but in so doing stimulates private involvement in the financing of culture.<sup>10</sup>

Economics, then, has found a constructive role in advising on and managing the actions of business and government in the cultural sphere, but it has really had very little to offer consumers. The public have no questions to ask economists, and if they had would be unlikely to receive any helpful answers. Neither the resources nor the aims of spectators, listeners, or readers have yet been described in a language which economics can understand, unless, perhaps in the matter of how consumers can best allocate the resource of their free time. This, indeed, is the take of economics on the problem of consumer navigation in culture. Effective use of any resource is facilitated by describing and objectivising the desired outcome. This raises some basic questions for the economist, not least, how we are going to identify and quantify cultural value. These we shall address in the final Chapter, but for now let us agree to make two important assumptions.

First, let us agree that anyone who wants to can learn to give an overall rating of the value he receives from an act of cultural consumption. At the very least, even when he is just beginning, he should be able to say in general terms whether he is more or less satisfied after a cultural experience than usual. We can see from the

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<sup>8</sup>This occurs because of a belief that the ticket price of the performance arts should be relatively low in accordance with popular ideas about a 'fair price' keeping art accessible to all. Insistence on this principle can make artists reluctant to continue working in their profession for a pittance.

<sup>9</sup>Analysis of 'Baumol's diagnosis' will be found in Tyler Cowen, "Why I Do Not Believe in the Cost-Disease", *Journal of Cultural Economics*, vol. 20, No. 3, 1996, pp. 207–214.

<sup>10</sup>A similar law has been under discussion in Russia for a very long time.

experience of recommender services, which are based on such assessments, that the vast majority of their customers successfully acquire this knack of rating.

Secondly, the higher the numerical points awarded within the context of a recommender system, reflecting the customer's overall perception of cultural value, the more effectively a person has spent his leisure.

If we accept both these premises, the consumer of culture stands before us as very nearly a valid *homo economicus* conscious of his aims, capable of assessing the degree to which they are realised, and having at his disposal all the resources needed to realise them: free time, money and cultural capital. That qualification 'very nearly' is necessary because his actual aims are known only to himself. No outside observer can tell for sure whether a cultural consumer is realising his aims successfully; certainly not the economist who has only incomplete information about how the consumer is spending his resource of leisure, although this lack of data is not insurmountable. Additionally, however, he has no criteria by which to judge whether the consumer has achieved the aims on which he spent his resource. Money, we have already seen, is a poor indicator where cultural consumption is concerned. Accordingly, as we tentatively make our incursion into alien territory it is unclear how best to deploy the instruments of economics to the advantage of the consumer. Perhaps the best way forward will be to try to analyse how far the markets of culture are working in the consumer's favour. Are they currently facilitating or obstructing the achievement of his aims? We are back to the question of navigation in culture: do the markets enable him to choose correctly, to his satisfaction? If not, and everything seems to indicate that they do not, may it not be time to seek a new institutional solution?

### 2.3 Business Interests vs the Interests of the Consumer

If we define culture as the sphere in which symbols<sup>11</sup> and signs are produced and circulated, we can confidently ascribe a good nine-tenths of it to commercially motivated activity.<sup>12</sup> This sphere will include the entertainment and media (E&M) industry, the industries of luxury and taste, and the greater part of the performance and visual arts. If we assess the ratio financially, the figure will be around 9:1 even without including the aesthetic or design component of utilitarian products. If we make the calculation in terms of time spent on consumption, the proportion of culture wedded to business will be even higher. The remaining, supposedly non-commercial sector of culture is also closely tied in to the market, like a satellite orbiting a planet.

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<sup>11</sup> A symbol is any sign which produces a common reaction in a community. The symbol's meaning is random in the sense that it is not inherent in the sound, object, phenomenon, etc. as such, but is formed in the process of communication and by mutual agreement. Examples of symbols are a word, a flag, an engagement ring. See G.A. and A.G. Theodorson, *A Modern Dictionary of Sociology*, NY: Harper & Row, 1969.

<sup>12</sup> It is only this commercial component of culture which is the object of our study.

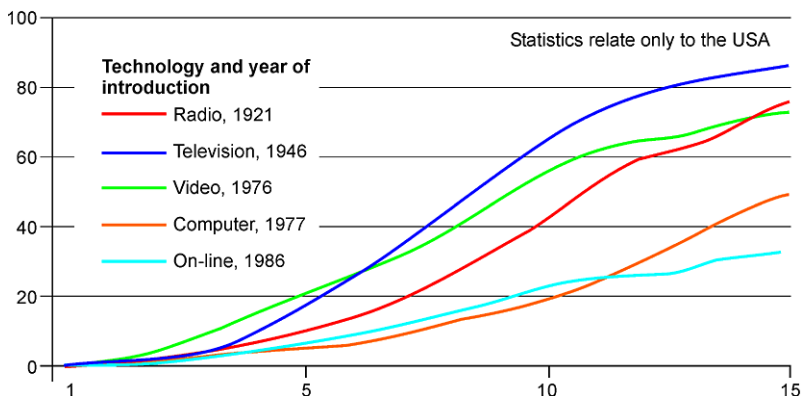
The average consumer has no direct contact with the creative artist. He encounters only what the representatives of business, guided by economic expediency and market rules, decide to give him access to: big-time cultural projects. Blockbusters, biennales and bestsellers need commercial nous, and this is provided by managers who stand at the helm of culture. Their aims are profit and capitalisation growth, and these demand large-scale output of production. This is particularly true of the mass sectors of intangible culture because the costs of copying and transmitting data are a relatively minor part of production costs. In the cost structure there are variable costs, which are those directly associated with manufacturing each unit (in publishing this would include the cost of paper, printing, designing the cover, paying the author's advance, etc.). There are also fixed costs associated with the commercial infrastructure—the office, lawyers, editors, logistics, managers, etc. and also with the financial investment. The engine which really drives business is economies of scale which are achieved by sharing out the fixed costs over a larger volume of goods. The greater part of the cost is in creating the prototype (the master copy, the original model) and in putting the marketing infrastructure in place. Accordingly, unit cost falls as the number of items produced increases, which means that business has a powerful incentive to increase unit output and product range. For culture this is both a good and a bad thing. As far as distribution of works is concerned—making them physically available and providing the framework for culture—the interests of business and culture coincide. The downside is the difficulties this creates for consumer navigation. The problem was exacerbated twenty years ago or so when considerable human resources were freed from the material sector of the economy and redeployed to non-utilitarian segments.<sup>13</sup> Navigation became even more difficult with the subsequent further advances in information technology.

Digitisation provides not only the technological basis for manufacturing and communication, it also provides a means to obtain the feedback to make accurate targeting of consumer demand possible. The capacity to mathematically predict demand has changed the nature of creativity and subordinated it to marketing.<sup>14</sup> The mass production techniques and cultural products which optimise box-office takings can be identified, but what is best for business is not necessarily what is best for the consumer of culture. In order to revise and replicate a successful formula devised to maximise mass appeal you do not need great geniuses with their unpredictable bursts of inspiration. Indeed, major talent does not lend itself to plodding away under someone else's direction. Different people are needed, people whose talent is for keeping productive capacity fully loaded whether or not the creative component is currently available.

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<sup>13</sup>The average annual growth of world consumer spending in the entertainment and media industry is just over 7 percent. In Latin America it is over 12 percent (from *Global Entertainment and Media Outlook: 2002–2006*, PriceWaterhouseCoopers, online. Cited 15 July 2003, available from URL: [http://www.pwcglobal.com/e&m/outlook/Outlook2002\\_ExecSummary\\_Final.pdf](http://www.pwcglobal.com/e&m/outlook/Outlook2002_ExecSummary_Final.pdf)).

<sup>14</sup>Arthur De Vany and W. David Walls, "Movie Stars, Big Budgets, and Wide Releases: Empirical Analysis of the Blockbuster Strategy", in De Vany, ed. "Hollywood Economics: How Extreme Uncertainty Shapes the Film Industry", *Journal of Business*, vol. 72, No. 4, October 1999, pp. 463–492.



**Fig. 2.1** Household penetration by technology (%) (*Global Entertainment and Media Outlook: 2002–2006*)

Three factors have led to the supply of cultural output being many times more than human beings can assimilate. These factors are: an increased supply of creative professionals; replacement of talent by technology; and advances in distribution. At any hour of the day or night the consumer can access a menu of thousands of items totalling millions of hours of entertainment per year. Of this, the average US citizen will consume more than 1,500 hours (see Table 2.1).

As can be seen from Table 2.1, media usage already takes up so much time that if the industry has anywhere to grow, it is mainly among the unemployed. According to data from another source, the average American spends almost half the twenty-four hours on media usage: less active consumers use approximately five hours while aficionados manage seventeen hours.<sup>15</sup>

It has been discovered that in reality people spend twice as much time using the media as they realise. On average three hours person per day is spent listening to music, including people who do not listen to it at all. This is enough time to listen to sixty three-minute songs or forty-five four-minute songs. Even if you sleep only five hours a day and listen to music uninterruptedly for the rest of the time, you will manage to listen to only 285 four-minute songs per day or approximately 100,000 per year. Despite your heroic effort, you will be unable to check out even one-fifth of the recording industry's annual output of over half a million tracks.<sup>16</sup> The fact that free time is limited and the process of selection so unreliable makes navigation an acute problem for the cultural community. The rest of this book will be devoted to examining it.

<sup>15</sup>Information from Ball State University's Center for Media Design.

<sup>16</sup>For further detail about demand for and consumption of music recordings, see Appendix 1, Sect. A1.7.



**Table 2.1** Media usage in the USA (hours per person per year)

Percentage change in consumption							
Film Entertainment	1999	2000	2001	2002	2003 <sup>a</sup>	2002–2003	1999–2003
Cable and Satellite TV	720	774	844	914	949	3.8	31.8
Terrestrial Television	867	865	828	786	778	(0.6) <sup>b</sup>	(8.4)
Internet	80	107	136	154	169	9.7	111.3
Domestic Video (viewing of pre-recorded video-cassettes or DVDs)	55	57	60	58	67	15.5	21.8
Film rental	13	12	13	14	13	(7.1)	0.0
Interactive TV (video on demand)	1	2	2	2	2	0.00	100.0
Total of Film Entertainment	1,736	1,817	1,883	1,928	1,978	2.6	13.9
Other Entertainment	1999	2000	2001	2002	2003 <sup>a</sup>	2002–2003	1999–2003
Radio	939	945	953	994	1,013	1.9	7.9
Music (pre-recorded)	281	258	229	201	188	(4.2)	(19.4)
Newspapers	183	180	177	176	173	(1.1)	(5.4)
Popular magazines	134	135	128	125	123	(1.7)	(6.4)
Fiction	119	109	106	109	110	(1.8)	(10.8)
Video Games	53	59	60	67	75	11.9	41.5
Total Spent on Other Entertainment	1,709	1,686	1,653	1,672	1,682	0.6	(1.6)
TOTAL	3,445	3,503	3,536	3,600	3,660	1.7	6.2

Source: Veronis Suhler Stevenson, 2003

<sup>a</sup>Data for 2003 is based on preliminary calculations by Veronis Suhler Stevenson

<sup>b</sup>Brackets indicate negative change. Thus, people are spending 0.6% less time watching television (786 hours in 2002 against 778 in 2003)

## 2.4 Adverse Selection in Culture: Formulating the Question

As already mentioned, repetition has an important role to play in the process of consumption,<sup>17</sup> but repeat purchases are not the norm in culture.<sup>18</sup> The result is that

<sup>17</sup>Vilfredo Pareto wrote on this subject: “As regards the replacement of a feeling of possible consumption by a feeling of actual consumption, then, if we examine repeating phenomena, as political economy does, these two feelings ultimately are so permanently interrelated that it would not be a serious mistake to substitute the latter for the former.” V. Pareto, *Manuel d’Economie Politique*, Paris, 1909. Cited in J. Weiner, “The Concept of Utility in Value Theory and Its Critics”, in *Vekhi ekonomicheskoi mysli [Landmarks of Thought in Economics]*, vol. 1, SPb: Vysshiaia shkola, 2000, p. 106.

<sup>18</sup>And even when they occur the act of consumption is not identical since a person, after the first experience, will have changed.

the link is broken between consumer rating of a product and improvement of its quality, because the manufacturer has no incentive to upgrade his product. There is no return flow of information to ensure signalling, predicted prices. If the consumer were buying the same item repeatedly, the situation would be as it is in conventional markets, where prices are informative.

If the price does not indicate an item's value, would-be purchasers have to try to obtain the information they need in some other way. Costs associated with decoding prices are present in conventional markets also, and indeed the concept is central to the theories for which Ronald Coase, who founded Institutional Economics, won the Nobel Prize in 1991.<sup>19</sup>

Coase introduced the notion of 'transaction costs' associated with establishing price, conducting negotiations, drawing up contracts, exercising oversight, settling disputes, etc., and showed they were not the same as management costs.<sup>20</sup>

Coase emphasised that transaction costs are omnipresent in economics, and culture is no exception. A whole range of easily overlooked consumer costs in culture would appear to come under this heading. There is the cost of wasted time, emotional expenditure, mental stress, etc. These are difficult to measure and may as a result be overlooked when decisions are being reached, but this does not mean they are negligible or unimportant. Rather, they should be included as external effects, important aspects of a deal which the participants cannot, or choose not to, take into account in the contract, with the result that they are omitted from the financial calculations. Undervaluing the resource of consumers' mental energy is analogous to Coase's transaction costs, when something significant was left out of the equation solely because it could not be measured. If important factors are ignored by the participants in a deal, their behaviour is unlikely to be optimal.

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<sup>19</sup>Coase asked why firms exist. He concluded that if there were no costs involved in using the price mechanism, an entrepreneur would be an independent, self-employed individual who contracted with other similarly independent individuals. The processes of searching and purchasing do, however, involve costs, transaction costs, and these make it disadvantageous to start afresh each time you need to obtain, say, professional services. A worker in a firm is employed for an extended period of time, not by the day or the minute. The firm also exists because it can coordinate operations more cheaply than through discrete market transactions. Put simply, certain solutions and resources can be provided more cheaply within a firm than if they were outsourced. This provides the incentive to create a team.

<sup>20</sup>Coase expounded his views in an article "The Nature of the Firm", published in 1937. This was one of two works for which, fifty-four years later, he was awarded the Nobel Prize for Economics. In the words of Coase, his main contribution to economic science was that he insisted on including in the analysis features of the economic system so obvious that they had escaped attention, namely, transaction costs. If these features are included they lead to a complete change in the structure of economic theory. The sum of managerial and transaction costs borne during production within the firm should be less than the sum of the same costs borne through market purchase. This is a crucial element of Coase's theorem. Ronald Coase, "The Nature of the Firm", *Economica* (n.s.), vol. 4, No. 16, 1937, pp. 386–405.

### ***2.4.1 Information Inequality as a Reason for Rewriting the Market Rules***

From the viewpoint of institutional economics the difficulties placed in the way of consumer navigation are a problem of information asymmetry.

People's behaviour in the culture markets (or any other) is dependent on availability of information about the quality of the goods on offer. Where both sides are not equally well informed, this affects both the terms of the deal, and even whether it takes place at all. Sometimes potentially beneficial deals fall through solely because one side realises it is insufficiently briefed in the matter and fears the other side's informational superiority will disadvantage it.<sup>21</sup> Where one side derives an advantage over the other contracting party through being better informed, its conduct is classified as opportunism. In a one-off deal or where the relationship is of brief duration, the victim can do nothing about it; if, however, the relationship is protracted and/or repeat deals are involved, the subterfuge usually comes to light and the offended party attempts to retaliate by looking for other factors left out of the contract which it can exploit in order to restore the balance. If this is not possible, contracts simply do not get renewed.

### ***2.4.2 What is a Tendency to Adverse Selection?***

In Chap. 1 we noted that the problem of information asymmetry had been researched in detail by George Akerlof, the Nobel Prize winner for Economics in 2001. Akerlof showed that if markets are to progress in which the quality of goods and services is not immediately apparent, special institutions or guarantees are needed to remove information anomalies. Without this no market may emerge, or it will degrade because of an outflow of disgruntled participants. It is difficult to think of a sphere where the information asymmetry between sellers and buyers is more pronounced than it is in culture. The sellers know all almost everything about their goods, while the buyers know remarkably little.

#### **2.4.2.1 In Praise of 'Lemons'**

Akerlof propounded his theory in a ground-breaking article we have already mentioned, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism".<sup>22</sup> The main postulate of this work is that if buyers cannot accurately assess

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<sup>21</sup>As Paul Milgrom and John Roberts point out, potential participants in a deal are inclined not to attempt to reach agreement if they foresee additional costs arising. Milgrom and Roberts, *Economics, Organization and Management*, Englewood Cliffs: Prentice-Hall, 1992.

<sup>22</sup>George A. Akerlof, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism", *Quarterly Journal of Economics*, vol. 84, August 1970, pp. 488–500. Akerlof's article was

the value of a product through examination before a sale is made, and if the problem is not resolved by effective public quality assurances, through reputation or regulation, guarantees or warranties, then the market is subject to a tendency to adverse selection where better quality goods are squeezed out by goods of inferior quality.

As an illustration Akerlof used the 'lemon' market. (In the United States beat-up used cars are referred to as lemons.) Akerlof asks why a car depreciates so sharply as soon as it leaves the showroom. Various explanations had been offered, including the view that possessing a car with no miles on the clock was a source of immense personal satisfaction. Akerlof explained the phenomenon as resulting from information asymmetry. The owner of a used car knows its true condition better than other people. If it is sold, the information advantage is on the side of the seller. A buyer in possession of very incomplete information runs a high risk of not buying what he wants. Good and bad cars, which the buyer cannot distinguish between, fetch the same price.

The sellers of good used cars are at a disadvantage. Those buying a used car are suspicious as to why it has been put up for sale, and those selling it know they are not going to get a fair price for it.<sup>23</sup> As result, the 'lemon' market is subject to adverse selection, with good cars left on the hands of their owners, and bad cars returned for re-sale. Ultimately, if no countermeasures are taken, bad cars squeeze out good cars and the market is destroyed.

#### **2.4.2.2 Other Examples of Information Asymmetry: Pre-Contractual Opportunism**

Used cars are not the only or the most serious example of the effects of asymmetrical information. In the same article, Akerlof gave other illustrations of his hypothesis, including the medical insurance market. He pointed out that an individual is far more capable than an insurance company of accurately assessing the risk of his

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not immediately understood or appreciated. The problems it raised were considered trivial and unworthy of publication in a scholarly journal. When the article finally did get published, it caused a sensation among economists. It contains the insight, among others, that there are many markets where buyers are forced to fall back on market statistics to form judgments about the quality of goods they plan to purchase. In such markets sellers have an incentive to pass off low quality goods, since high quality creates a reputation not for a particular seller but for all sellers in that market. As a result there is a tendency both for the average quality of goods and the size of the market to fall.

<sup>23</sup>Akerlof draws a parallel with Gresham's law. 'Bad' cars have much the same tendency to squeeze 'good' used cars out of the market as, according to Gresham's Law, 'bad' money drives 'good' money out of circulation. The analogy is not complete however, as Akerlof points out. Bad cars squeeze out good ones because both are being sold at the same price, and in exactly the same way inferior money squeezes out superior money because the exchange rate is the same for both. The fact that cars of differing quality can be sold at the same price is because the purchaser is unable to tell one from the other. The real quality is known only to the seller. Gresham's Law, however, assumes that both buyer and seller can tell the difference between 'good' money and 'bad'. Thus the analogy, although instructive, is not perfect. Akerlof, "The Market for 'Lemons'".

falling ill. As result, the premium for an insurance policy is determined by the poor state of health of those wishing to insure themselves, with the ultimate possibility that it might become impossible to obtain insurance at any price.<sup>24</sup> Akerlof had good reason to consider the insurance industry, since that is where the term ‘adverse selection’ originally comes from.<sup>25</sup> Those who know they have health problems are more inclined to buy health insurance policies. A policy reimbursing the medical costs of childbirth is clearly more likely to be taken out by women planning to start a family in the near future. The insurers, aware of this, have to set the premium accordingly. Customers whose family planning is at less advanced stage will find the insurance too expensive and not buy it. In the United States this kind of insurance is not widely available precisely because of adverse selection.<sup>26</sup> The example demonstrates that in economics agents tend to enter into deals in which they can turn better information to advantage. If car dealers offer extended warranties on higher mileage cars, these are likely to be acquired by people intending to do a lot of driving on country roads.

Akerlof argues that information asymmetry throws light on the plight of those belonging to national minorities who are seeking employment. They are frequently rejected not so much because employers are racist as because they calculate prudently. Ethnicity can signal the candidate’s likely social status, abilities, and the quality of his training. A college with a good reputation is seen as attesting that its alumni are trained to a good level, which means that those hiring them can expect to make fewer mistakes in their choice of staff. The lower reliability of schools in poorer areas restricts the economic prospects of their graduates, particularly for those from ethnic minorities. An employer may quite rightly decide that hiring such people for skilled work is unwise because it is difficult to differentiate well-trained workers from those who are likely to prove incompetent.<sup>27</sup> Some educational institutions react to the situation by resorting to guile: in order to attract pupils by offering them the prospect of greater employability, they adopt names similar to those of successful brands.

Akerlof found striking examples of adverse selection in the developing world. In the recent past Indian housewives had every time to sift meticulously through rice bought at the bazaar because the sellers regularly adulterated it with tiny stones similar in colour and shape to grains of rice. At the moment of purchase it was difficult to tell good quality grain from bad. Still in 1960s India, rural money-lenders were able to charge interest double the going rate in large cities. This was ruinous for peasants. The money-lenders did not have to fear being undercut by middlemen taking loans in the city to give credit to country people because the middlemen

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<sup>24</sup>Akerlof, “The Market for ‘Lemons’”.

<sup>25</sup>Insurance textbooks warn that for the 65+ age group regressive selection is a particular problem. Insurance premiums are so high that only the most profound pessimists will consider taking out a policy.

<sup>26</sup>The example is taken from Milgrom and Roberts, *Economics, Organization and Management*.

<sup>27</sup>Akerlof, “The Market for ‘Lemons’”.

did not know the local population and would risk taking on borrowers incapable of repaying their loans.

Another sphere where lemons are likely to appear is in the securities market. Those issuing new shares are better informed about their value and prospects than investors obliged to put their trust in analysts. Akerlof sees this as accounting for the price volatility of technology shares.

An information inequality which favours one side in a deal is, then, a trigger for adverse selection. One party is misled by the other's concealment of salient information. This behaviour is called pre-contractual opportunism, but in fact the invariable imperfections in the description of a deal mean that preconditions for opportunism are present to a greater or lesser degree in any contract. The more experienced side often draws up the contract to suit its needs, oversimplifying or sidestepping certain issues in order to open the way for subsequent opportunism. Adverse selection is effectively a form of pre-contractual opportunism, of rigging the terms of a deal.

Markets react to information asymmetry by creating institutions to iron out the inequalities. These can be guarantees, insurance, or a general concern to maintain a good reputation, perhaps through the use of brands, branded shops, or franchising. Such measures are usually effective in counteracting adverse selection: the used car market in the United States continues to function,<sup>28</sup> insurers prosper, and Indian dentists have their earnings reduced by the disappearance of disreputable retailers of rice.

Such institutions can, however, fail to appear, either because of a failure to keep up with the advance of technology or for other reasons. Culture, alas, is one sphere where all the prerequisites of unfavourable selection are present. To date nobody has clearly indicated the parallel between the ills which can strike conventional markets and those affecting the markets of culture.<sup>29</sup> Moreover, unlike the industrial sphere where the malady has proved treatable, in culture it gives rise to more serious complications. In utilitarian sectors it is far easier to diagnose adverse selection than in the aesthetic realm, where its action is much less visible.

## 2.5 The Susceptibility of Culture to Adverse Selection

### 2.5.1 *Preconditions for the Appearance of Adverse Selection*

The problem of imperfect information affects any sector where assessing quality before concluding a deal is either impossible or unreasonably costly. In culture we

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<sup>28</sup>In Akerlof's example of used cars, buyers can, of course, insist on seeing a car's maintenance record, have it inspected by an experienced mechanic, or buy through dealers with a good reputation who provide a guarantee.

<sup>29</sup>Only one, Internet, publication has been found: Lisa N. Takeyama, "Piracy, Asymmetric Information, and Product Quality Revelation", Department of Economics, online, Amherst College, 2002. Cited 25 May 2004, available from URL: <http://www.serici.org/2002/takeyama.pdf>. The article makes direct mention of adverse selection in respect of cultural markets.

should expect it to be particularly acute since information inequality between the professionals and the public is very much in evidence. Critics like to posture and say it is not for them to pronounce on the actual quality of works. The Hollywood saying ‘Nobody knows’ implies that providers and consumers are equally in the dark, but it should not be taken too literally.<sup>30</sup> Providers may be unable to predict the commercial success of a work with total certainty, but they know almost everything there is to know about it. They themselves have already consumed it, unlike its potential viewers and listeners. Consumption of a work of art presupposes an encounter with something new, of which the public is necessarily going to be ignorant. This means that a different way has to be found of getting round the problem of information asymmetry than can be used with utilitarian goods. Guarantees, insurance, and franchising have found no place in the cultural sphere because, as we shall see, they are not applicable there. The only institutions brought in to counteract quality uncertainty are brands, reputations, and critics—and they cannot be said to have been much help.

Given that information asymmetry regarding the quality of cultural products is so evident and that institutions to counteract it are weak or non-existent, there is only one answer to the problem of adverse selection in this market. The nature of creative products themselves, difficult to categorise and constantly changing, makes the task of dealing with asymmetry more difficult. Providers of cultural goods and services have every opportunity to engage in pre-contractual opportunism. At little risk to themselves they can promise high quality and deliver low quality. Players trying to avoid a bad reputation and seeking to deliver consistent quality find themselves obliged to standardise the production process, which has an ill effect on culture.

Altogether, Akerlof’s concept of adverse selection appears a perfect fit for the state of the artistic markets. He warns that the presence of sellers wishing to sell substandard goods undermines the functioning of the market.<sup>31</sup> The culture markets are wide open for providers of substandard products. The market rules work in favour of the untalented and to the disadvantage of the gifted. It is estimated that the makers of only one in thirty films set out with the intention of creating a work of art; the remainder do not even aspire to that.<sup>32</sup> As in the situation which Akerlof models, there may be potential buyers of high quality goods in the market, and potential sellers of such goods at an appropriate price, but the presence of sellers seeking to present their substandard goods as high quality crowds out the honest business. The costs resulting from such unconscientious behaviour include not just the money which the purchaser is tricked into paying, but also losses associated with the diminishing of the realm of honest business.<sup>33</sup> Akerlof’s concept closely models the present situation in culture.

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<sup>30</sup>Ruth Towse suggests this should be revised to, ‘Some people know more than others’. Ruth Towse, “Copyright and Cultural Policy for the Creative Industries” (2002), in Ove Granstrand, ed., *Economics, Law and Intellectual Property*, Kluwer Academic Publishers, forthcoming.

<sup>31</sup>Akerlof, “The Market for ‘Lemons’”.

<sup>32</sup>This opinion of the classic Hungarian film director, Istvan Szabo, was expressed in an interview given to Polit.ru, 2005.

<sup>33</sup>Akerlof, “The Market for ‘Lemons’”.

### ***2.5.2 How Adverse Selection Operates in Culture***

Adverse selection in the cultural sphere is facilitated by the fact that it has little protection against invasion by enthusiasts with insufficient professional expertise, and by opportunistic agents. Playing on the undoubted fact that tastes vary, and sometimes on the critical incompetence of consumers, they masquerade as genuine artists and flood the market with shoddy products. These pseudo-goods are presented and packaged exactly like genuine goods, the consumer fails to notice the difference and pays for them as if they were top quality. Surrounded on all sides by low-grade offerings, buyers may ultimately cease to recognise quality, or even find that they can do without it.

Dishonest players build their business on this, profiting from the fact that it is easier and cheaper to exploit other people's templates than to create top-notch products of your own. In the various markets in which adverse selection is operating, participants exploit their information advantage in different ways. In culture the driving force is manufacturers' desire to increase the number of units sold, and with it their profit. In the digital sector where the cost of copying is negligible, this is particularly noticeable. In tangible sectors it develops in proportion to the falling cost of the material medium.

Quality, because no standards are defined and because it cannot be ascertained before consumption, is sacrificed to quantity. This is the point where the interests of the realms of business and culture diverge fatally. To pre-contractual opportunism is added post-contractual opportunism—a moral hazard arising from the divergent interests of contracting parties when outcomes are finally considered. We find the businessman adhering strictly to the letter of the contract and not troubling himself about any kind of moral obligations implied by the spirit and essence of his interaction with the other party. The buyer is guided by generally accepted parameters, and the seller attempts to limit himself only to these, disregards everything else, and is confident he will get away with it. *De jure* the contract is fulfilled, but *de facto* the game is very one-sided. The fact that the quality of works of art is so ill-defined powerfully attracts businessmen who feel at home in a morally questionable situation.

Business's urge to increase throughput leads to two things: the manufacture of averaged-down products for the mass market, blockbusters, and the release of an excessive variety of offerings. As a result, tons of aesthetically low-grade ore gets mined. Potential consumers have to put in a lot of hard work if they want to form an independent opinion of the quality of a cultural product before they buy it. Either that, or they will have to take the risk of finding their purchase not to their taste. Buyers are almost certainly unaware of just how rigged this lottery is against them. As they do not know what would be regarded as a fair percentage of losing tickets, they cannot establish what is unfair. This allows those on the inside to toss in as many losing tickets as they choose.

Business not only exploits its information advantage, certain players cynically exacerbate the inequality as a prelude to opportunism. Certifying institutions fail to ensure effective sifting and enrichment of the artistic ore, the critics' filters are



soon clogged, and items of real interest simply get lost among all the dross. This is the source of the problem of consumer navigation in culture: the technologies for providing consumers with critical guidance are no longer keeping up with the sheer volume of mass produced culture.

Analysing the motives and logic of business suggests that the current state of affairs is the result of a process of adverse selection which has been worsening for some time. We could of course keep our fingers crossed and hope that culture has an innate immune system which will protect it from this kind of process. It is still too early to make the diagnosis with any certainty, but it has to be said that all the preconditions are there for this dangerous tendency to develop. Adverse selection is not, of course, the twilight of the gods, the triumph of an era of journalistic values, or the crisis of art which cultural studies academics so often invoke. If it is occurring, that would not shame the cultural community or disavow its achievements. Adverse selection is merely a market mechanism, and analysing it might explain why the culture markets are failing. The metaphors of cultural studies are of no help here. What is needed is scrutiny of the mechanisms of the culture business, which may then reveal points at which our leverage can best be applied. The first necessity is, of course, to make sure that the diagnosis of adverse selection is correct.

### ***2.5.3 Symptoms of Adverse Selection in Culture***

If adverse selection is operating in the culture markets, we would anticipate a number of tell-tale signs. On the basis of how other markets have behaved, we would expect to find:

- large-scale output of products of questionable quality;
- a fall in the proportion of high-quality products (successful works) in the market;
- high consumer search and sampling costs, dissatisfaction among consumers, and defection of the most competent;
- under-realisation of certain types of products because of distribution and marketing problems, leading to underproduction;
- gravitation of consumer preferences to particular segments of culture; narrow specialisation and differentiation of the cultural community;
- deterioration of taste;
- defection of gifted, creative people out of the arts.

### ***2.5.4 Why Is It Difficult to Prove Adverse Selection in Culture?***

The symptoms we have listed are not visible on the surface. Other data might suggest that adverse selection is not occurring. It is probably not possible to confirm or refute every hypothesis empirically. To assess the state of a particular segment

of culture objectively, let alone the state of culture as a whole, is also impossible. There is no way, for instance, of quantifying the loss caused by the disappearance of certain cultural practices, or by the fact that certain works were never created, and measuring it against the gain from practices which came in their place. There is no way of measuring a general decline in good taste. Despite all this, we see from numerous public statements made by people in the arts, the artists themselves, critics, academics and some groups of consumers that they have a persistent sense that things are moving in the wrong direction. Why is it so difficult to translate these opinions and moods into irrefutable evidence?

Suppose that our research was into the effects of industrial waste on the state of the fisheries. We discover that the harmful effects of effluent have caused several species of fish to die out, others are in the process of dying out, and others again are mutating and adapting to the new environment. If we conducted an opinion poll to see how the fish feel about what is happening, we would register no opinions from the first group, whose representatives' voices have been stilled. From the second group we shall obtain a certain amount of barely audible sighing and a mood of decadence. The third group might well be optimistic, since it would owe its very existence to the changes, but how valuable is the opinion of a group unable to make comparisons? If they were to encounter a fish previously regarded as an outstanding specimen, could they appreciate it with no knowledge of the old context? A ballot would show the opinions of group three to be in the majority, but is the future as rosy as they imagine, with the balance of the ecosystem disrupted? Only the second group, almost unable to express their views, are still capable of seeing the direction of the changes.

Our analogy is not invalidated because fish cannot talk: consumers of culture also have no voice in the markets which would enable them to express their views on what is happening. The individual consumer cannot analyse a situation of which he is himself a product. Like a patient undergoing anaesthesia, he hears no confirmation that he is losing consciousness. V.S. Naipaul once complained that literature had died and the world did not seem much troubled by the fact. People simply no longer felt the need for it.<sup>34</sup>

Adverse selection is like a virus during its incubation period. By the time the damage it is causing becomes apparent, it may be too late to do anything about it. There are no written standards for consumers of culture, so it is difficult to say when they are not being met. The protests of the discontented are swept away by the actions of the professional players pouring water on the mill of adverse selection. The cultural community lacks the vigour to rise up against them. Mass produced culture is profitable: pandering to minority groups is not. Indeed, these groups have themselves a penchant for bargain-basement prices and may no longer be willing to pay a higher price for better quality.

It is no good railing at business, which is only acting within the current rules and standards. No amount of exhortation will change its behaviour to some-

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<sup>34</sup>Cited by A. Konchalovskii "Victory of the Market over Art" ["Pobeda rynka nad iskusstvom"], *Rossiiskaia gazeta*, 9 February 2005.

thing less profitable. We face an institutional equilibrium from which it is increasingly difficult to escape, if only because a decreasing number of people wish to do so. The solution is a new business model for culture, but this first requires a clear demand for change and a vision of what the future could hold.

Meanwhile, things are getting worse. Business is itself bringing forward the moment of collapse by obstructing the flow of information. When that quartet ‘everything, all the time, for everyone, everywhere’—every genre day and night, available to everybody no matter where they may be—becomes a reality, the question of ‘what’ will become crucial. What should be chosen from the hundreds of television channels and thousands of digital and non-digital products on offer?

Obviously, one cannot simply dismiss the preferences and likings of the mass consumer, even if they are orchestrated. The predominating tastes are immensely important to the markets and they can be influenced only by surreptitiously grafting on cultural practices which call for a higher degree of intellectual effort. With the advent of collaborative filtering a glimmer of light has appeared at the end of the tunnel. If some rather small but very active taste communities can be just slightly redirected and turned into users of collaborative services, this whole process will begin to take off. Few though these groups are in number, they already operate an automated bush telegraph. For the time being it is low-powered in comparison with the radio stations subsidised by the promoters of culture.<sup>35</sup> It frequently breaks down, but if consumers tune in to a common monetary wavelength, the informational ‘interference’ from outside will be silenced. This is the antidote we see to adverse selection, providing, of course, that the very fact of its existence in the realm of culture is not denied. That it is operating is proved by one piece of evidence it is impossible to ignore.

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<sup>35</sup>The Attorney General of New York State and Sony BMG Music Entertainment came to a settlement under which the firm agreed to stop making payments and providing expensive gifts to radio stations and their employees in return for airplay for the company’s songs. The main points in respect of Sony BMG were:

- To cease interference in the compiling of radio stations’ programmes (payments to responsible individuals to play new songs released by the label);
- To cease making payments to radio stations to obtain or increase airplay in order to raise ranking of their songs in the music charts;
- To pay 10 million dollars to New York State charities to fund programmes aimed at music education and appreciation.

The agreement was extended to include such other major labels as Universal Music Group, Vivendi Universal, EMI Group and Warner Music. Numerous complaints from listeners had forced the adoption of these measures. (Information from the *New York Times*, published in Russian translation on Polit.ru, 25 July 2005).

### 2.5.5 Unification of Prices and Adverse Selection

In Chap. 1 we touched on the paradox of uniform prices. We noted that the situation in music is typical of the digital industries. Not only CDs and online music tracks, but even cinema tickets are sold at the same price, varying only slightly in accordance with the furnishing of the auditorium, the time of showing, location of the cinema and similar factors.<sup>36</sup> The quality of the films has no impact at all. The situation is roughly the same in respect of DVDs, video-cassettes and books (apart from business literature, for which there are particular reasons). Although the price of books seems at first sight to vary, if we strip out the cost of printing and paper and take account of the location of the shop, we shall see that the basic price bears no relation to content. Uniform prices for products of the same type but differing quality have become so familiar that it is difficult to imagine anything else.

But precisely because price is no indicator of quality, consumers are bound to make mistaken choices, and sellers are given an opportunity to exacerbate the situation to their own advantage. There are two questions in this connection which are crucial to understanding the culture markets. The first, why prices are not differentiated, has been fairly fully analysed in economic literature.<sup>37</sup> The second, what consequences uniform prices have, has so far been neglected. Economists have taken a greater interest in the gap between price and demand and a failure on the part of producers to fully realise potential profits, whereas we are more concerned about the losses and inconvenience suffered by consumers. Let us, however, first examine the theories which illuminate the practice of unifying prices.

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<sup>36</sup>Exceptions are day-time screenings and concessionary tickets for children, students, ex-servicemen, and pensioners. Some degree of price differentiation is found, linked indirectly to comfort. Auditoria with large screens, better acoustics and newer seating are reserved for popular films. Prices actually vary little as a result of competition between cinemas. Peter Davis, "The Effect of Local Competition on Retail Prices: the United States Motion Picture Exhibition Market", Working Papers, London School of Economics, October 2002.

<sup>37</sup>See, for example, J. Tirole, *Markets and Market Power: the Theory of Industrial Organization* [*Rynki i rynochnaia vlast': teoriia organizatsii promyshlennosti*], vols 1, 2, 2nd, revised, ed., SPb: Ekonomicheskaya shkola, 2000. The following articles are devoted directly to ticket prices: Pascal Courty, "Ticket Pricing Under Demand Uncertainty", *Journal of Law and Economics*, vol. 46 (2), October 2003, pp. 627–652; Allan C. DeSerpa, "To Err Is Rational: A Theory of Excess Demand for Tickets", *Managerial and Decision Economics*, vol. 1 (5), 1994, pp. 511–518; Stephen K. Happel and Marianne M. Jennings, "Assessing the Economic Rational and Legal Remedies for Ticket Scalping", *Journal of Legislation*, vol. 16 (1), 1989, pp. 1–14; Philip J. Leslie, "Price Discrimination in Broadway Theatre", *Rand Journal of Economics*, vol. 35, No. 3, pp. 520–541; Daniel R. Marburger, "Optimal Ticket Pricing for Performance Goods", *Managerial and Decision Economics*, vol. 18 (5), 1997, pp. 375–382; Serwin Rosen and Andrew M. Rosenfield, "Ticket Pricing", *Journal of Law and Economics*, vol. 40 (2), 1997, pp. 351–375 (In this important article price discrimination of the second and third categories is examined in connection with questions of price formation in the ticket market); Andrew T. Williams, "Do Anti-Scalping Laws Make a Difference?", *Managerial and Decision Economics*, vol. 15 No. 5, 1994, pp. 503–509.

### 2.5.6 Why Do Suppliers Leave Prices Alone?

Einav and Orbach analyse the problem of uniform prices with reference to the film exhibition industry.<sup>38</sup> Believing the system of levelling prices in cinemas to be inefficient,<sup>39</sup> they ask why it is clung to so persistently. Non-variable pricing is found in respect of many goods and services, despite their differing quality or a different make-up of the services provided. For example, in the USA the postal service levies a uniform charge whether a letter has to be delivered to a remote destination or within the limits of a single city.<sup>40</sup> There are usually particular economic reasons for failure to differentiate prices. There will often be additional operational costs for the seller if rules and prices are to vary, such as the expense of distributing up-to-date information, and menu costs.<sup>41</sup> There appears, however, in the opinion of Einav and Orbach, to be no compelling reason for the practice of uniform pricing in cinemas.

Cinematographs appeared in 1905–1917 and were called nickelodeons because the ticket cost five cents.<sup>42</sup> The name was retained even when the price rose to ten cents. In those days movies were all of much the same quality and were sold to those screening them at a fixed price per foot. With the coming of full-length features and sound, purpose-built premisses for showing films began to appear and the price of tickets rose. Despite that, no attempt was made to price films in accordance with demand, although in the first half of the twentieth century prices varied considerably more than they do today; for example, cinema-goers paid more for the first-night showing. From the end of the 1960s, however, such variations in the price of a cinema ticket ceased. Today, even in cinemas which show new and older films, the policy of equalised prices prevails. Attempts to react to demand for tickets are rare. Thus, in 2000 when the owner of a cinema in China slashed ticket prices by two-thirds, he merited a piece in *Time Magazine*. In 1978 several cinemas in Washington, DC cut prices from Mondays to Thursdays by two-thirds, with a resultant increase in their box-office takings. Analysts noted that a side-effect of this experiment was a doubling of popcorn sales.

The mechanism of uniform price formation was considered briefly in the Chapter on music. Here it will be analysed in greater detail. Einav and Orbach reject the

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<sup>38</sup>Liran Einav and Barak Y. Orbach, “Uniform Prices for Differentiated Goods: the Case of the Movie-Theater Industry”, Discussion Paper No. 337, Harvard Law School, Cambridge, MA, 2001. Einav and Orbach base themselves on numerous interviews with practitioners and experts in the industry who have an inside understanding of the logic of price formation.

<sup>39</sup>In the epigraph to the article they adduce the words of Edgar Bronfman who at that time was director of Seagrams which owned Universal Pictures: ‘This is a pricing model which makes no sense, and I believe the entire industry should revisit it’.

<sup>40</sup>This form of price discrimination is examined in the next Chapter.

<sup>41</sup>If price tags are changed frequently and menus corrected, additional costs arise for paper, printing, making calculations and auditing sales. This is described as ‘menu costs’.

<sup>42</sup>A five-cent coin was known as a ‘nickel’. The term Nickelodeon also came to be applied to jukeboxes set up in cinematographs which could be made to play for five cents.

generally accepted explanations for uniform prices (cinema owners are in a cartel; they are against assessing art on principle; the expense of publicising differential charges would exceed any potential gains). They identify what they regard as four real reasons.

The first is perceived fairness, where consumers feel no cause to accuse exhibitors of being greedy. Businessmen seem to fear that variations in price might produce a backlash if consumers consider them unfair. Artists like U-2, Pearl Jam, Billy Joel, Garth Brooks and others also take the view that fixing a 'fair' price for their concerts, i.e. charging less than they could, is appreciated by their fans.<sup>43</sup> Low prices can be good for a star's image, where raising them might harm his reputation and future sales.

The concept of 'fairness' is often used by economists. Thus, it is considered fair to raise prices where a manufacturer is facing increased costs. Undisguised attempts to increase profit by exploiting heightened demand or other problems confronting the consumer are judged to be unfair. Coca-Cola, for example, faced mass protests from consumers when they installed vending machines which adjusted prices to weather conditions. Raising admission prices at weekends and on holidays might be found objectionable by cinema-goers, although the practice is not unknown. Charging a premium for a hit is regarded as fair, with the result that the budgets of movies and fees paid to stars are meticulously publicised so that the public should be aware of the connection between higher prices and high production costs.<sup>44</sup>

The fact that uniform prices for cinema tickets has become standard practice over the years led to its being regarded as the sole fair system. The film industry cannot ignore this, because its goods are readily replaceable by other films or by other leisure activities, including viewing films at home.

The second reason, according to Einav and Orbach, is the so-called agency problem, the difference between the interests of the principal, who commissions, and the agent, who fulfils. In the present instance this relates to contingent sales. The interests of distributors and exhibitors of films as regards box-office takings diverge. Although they sup from the same bowl, the exhibitor has additional sources of income. For him a dollar made from selling refreshments is worth more than an extra dollar on ticket sales because he does not have to share his profit on popcorn with the distributor. Cinemas thus have an incentive not to risk reducing their snack bar revenue by raising admission charges. Against this, selling tickets too cheaply may attract 'non-snackers', spectators who come to the cinema solely in order to watch the film. This factor has to be taken into account not only by cinema managements but by the entire entertainment industry and its agents—owners of sports teams, performers, promoters etc.

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<sup>43</sup>Stephen K. Happel and Marianne M. Jennings, "Creating a Futures Market for Major Event Tickets: Problems and Prospects", *Cato Journal*, vol. 23, No. 3, Winter 2002, pp. 443–461.

<sup>44</sup>This also provides a motive for exaggerating costs in order both to reduce royalties and minimise tax.

The popcorn issue is meticulously studied in Stephen Landsburg's article, "Why Popcorn Costs More at the Movies and Why the Obvious Answer Is Wrong".<sup>45</sup> The right answer, according to Landsburg, is that owners and promoters sell a package consisting of both the entrance ticket and contingent goods. It is surmised that cinema-goers are willing to spend a certain amount of money on their experience, and that they are not bothered whether they pay seven dollars to get in and one dollar for popcorn, or five dollars to get in and three for popcorn. Sellers therefore need to attract consumers prepared to pay as much as possible for the overall package. Although the buyer may not care how exactly his expenditure is divided, this is not true of the cinema- or theatre-owner, whose total profit is made up from services which vary in profitability. Particularly good seats are sold at a price less than what purchasers could afford, but the profit forgone is more than made up for by revenue from the sale of contingent goods. Less attractive seats are not markedly cheaper, because then they would be taken by non-snackers who merely wished to see the film. Nevertheless, some of the worst seats are virtually given away by exhibitors in the hope that some at least of the consumers will spend money on food.

Marburger reaches the same conclusion as Landsburg, demonstrating theoretically that ticket prices are designed to maximise the sales of accompanying goods.<sup>46</sup> Rosen and Rosenfield draw attention to the fact that serving one group of customers can limit income from the sale of accompanying goods to other groups.<sup>47</sup> Leslie, taking the example of the Broadway play *Seven Guitars*, demonstrates that introducing variable pricing can enhance the profit margin by approximately five percent.<sup>48</sup> DeSerpa describes concerts as 'crowd goods', meaning that what is consumed is not only the action on the stage, but also the reaction of the audience, perceived as a kind of 'club good'.<sup>49</sup> For members of the community the atmosphere they jointly create is the most attractive element of the experience, and it naturally falls into the category of external effects. Sellers cannot attach a price tag to this component of the good, but they do recognise that the buyers prepared to pay the highest price for a ticket are not usually the 'best punters' because they do not provide revenue from contingent goods. Price filters are accordingly adjusted to ensure an optimal mix of different types of consumers. Quite understandably, owners and promoters, having found a precarious balance between ticket prices and supplementary goods, strongly oppose any changes which might damage sales strategems they have devised in the light of long experience and which have proved profitable.

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<sup>45</sup>Steven E. Landsburg, "Why Popcorn Costs More at the Movies and Why the Obvious Answer Is Wrong" (1993), in Landsburg, *The Armchair Economist: Economics and Everyday Life*, NY: Simon and Schuster, 1995.

<sup>46</sup>Daniel R. Marburger, "Optimal Ticket Pricing for Performance Goods", pp. 375–382.

<sup>47</sup>Sherwin Rosen and Andrew Rosenfield, "Ticket Pricing", *Journal of Law and Economics*, vol. 40(2), 1997, pp. 351–375.

<sup>48</sup>Philip Leslie, "Price Discrimination in Broadway Theatre", cited in Stephen K. Happel and Marianne M. Jennings, "Creating a Futures Market for Major Event Tickets".

<sup>49</sup>DeSerpa, "To Err is Rational".

It is generally true that, within horizontally or vertically integrated businesses, content is often no more than a catalyst for much more substantial earnings. Content can be compared to an 'anchor tenant' in a shopping centre: the food shop which draws in buyers who in turn become customers for other shopping outlets which are then able to pay higher rents. Accordingly, it may be prudent to grant the food shop a lower rent. In just the same way music may be sold quite cheaply, a monthly subscription of \$4–5 providing unlimited access to hundreds of thousands of songs, because the main revenue stream is from sales of audio-players.

The mere thought that inexpert ticket price formation might damage contingent sales is enough to scare business people off experimenting with them. No less important is the fact that the exhibitor of films is a servant of many masters. He is screening films from different distributors, and differentiating prices will further complicate already difficult negotiations over the right to exhibit them. Imagine trying to justify a steep discount for a particular film! The calculations are no simpler for the distributor, who has to take account of income from secondary markets, for which the screening of his film provides advertising.

The third reason for the uniformity of cinema admission charges is the unpredictability of box-office success.<sup>50</sup> Films have a short screen life, which leaves little time to adjust prices after the first weekend's showings. Einav and Orbach, like myself, are unconvinced by this, the most popular of the explanations. The uncertainty is less than claimed, and in fact there is also time enough. The other reasons given do, however, have some justification, quite apart from the natural reluctance of all concerned to give a price signal that a film is a flop.

This latter consideration is put forward by the authors as a separate fourth point, which they label 'unstable demand'. Where quality is variable, as is undoubtedly the case in the film industry, uniform prices may be fundamental to the seller's strategy. The suits of the film industry are concerned that cinema-goers may regard ticket price as a signal of quality and avoid cheap films.

Here we come to the crux of the matter. The answer to the riddle of uniform prices is simply that business wants to avoid giving out any signals which might discredit its goods. This is a topic to which we shall constantly return: pre-contractual opportunism, flourishing in an environment of carefully fostered ignorance of consumers.

Einav and Orbach do not give this factor its due weight, and indeed do not consider there to be any insuperable reasons for not differentiating prices. However, instead of the muted appeal to 'unstable demand' which they propose, we may resoundingly accuse the industry of a disingenuous information strategy, and indeed of concealing evidence.

One other aspect which Einav and Orbach do not mention is that price-cutting could lead to wars of attrition.<sup>51</sup> Breaching the price taboo might put this unwelcome thought in the minds of your competitors.

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<sup>50</sup>William Goldman, *Adventures in the Screen Trade: a Personal View of Hollywood and Screenwriting*, Warner Books, 1984; Richard E. Caves, *Creative Industries: Contracts Between Art and Commerce*, Cambridge, MA: Harvard University Press, 2000.

<sup>51</sup>The concept of a war of attrition was introduced into theoretical biology by Meynard Smith to explain the battles between animals for prey. Two animals fighting over prey can be compared to



For all that, the underlying reason for price uniformity is a conscious desire on the part of commercial interests to avoid information transparency, as the representatives of business will themselves privately admit. They naturally regard this as a purely internal matter and no concern of the outside world. The more prudent remain completely silent on the subject, evidently preferring to let sleeping dogs lie. They gently chide Bronfman, the already mentioned chief of Seagram, with his populist calls to break down the system of homogeneous prices, uneasily aware that no good may come of it.

This price screen which masks quality is, however, more damaging than mere cover for the tricks of entrepreneurs seeking to drive up their profit. It has disastrous consequences for culture as a whole, not the least of which is the predominance of all manner of rascally players. It lets off the hook not only conscientious manufacturers whose striving after quality occasionally ends in failure, but also provides cover for hordes of producers with very little interest in or ability to deliver good quality.

Einav and Orbach point out that the postulates of unstable demand and perceived fairness are to some extent contradictory. The logic of fairness suggests that raising prices may lead to rejection by consumers; but at the same time, the concept of unstable demand suggests they will be put off by low prices. On one thing, however, the two theories agree: they both favour uniform pricing.<sup>52</sup> The authors propose what they see as a straightforward marketing approach: disguise differential prices by discounting. If consumers object to the raising of prices, let them rejoice at being given discounts. The philosophy appears to have been borrowed from clothes sales.<sup>53</sup> Why sellers who aspire to raise their profits should obstinately persist with an imperfect price policy remains a mystery to the researchers.

And yet, how easy the answer is. Why do people not saw off the bough they are sitting on? Small gains in one area threaten ruinous losses in another. Business understands this intuitively without needing to have a theoretical explanation of why it is profitable to keep consumers in the dark.<sup>54</sup> The serious money is on keeping consumers bamboozled. The entrepreneur quite rightly calculates that the only way to make a profit out of culture as such is by concealing quality behind a price screen. Under today's business model there is no alternative. Either buyers spend

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two firms fighting for control of their sector, their determination increasing in proportion to the scale of the battle. The fight costs animals dear: in the end they reject all other possible actions and are reduced to total exhaustion. In just the same way duopolistic competition can be expensive, since it creates negative profits. In both cases the aim of the fight is to force the rival to surrender. The victorious animal obtains the prey: the victorious firm gains monopoly power. The loser can only regret he ever became involved. Cited in J. Tirole, *Rynki i rytnocnaia vlast'*, vol. 2, p. 187.

<sup>52</sup>Einav and Orbach, "Uniform Prices for Differentiated Goods".

<sup>53</sup>The theory and practice of sales price-cutting is described in the next Section.

<sup>54</sup>Courty, as also Lewis and Sappington, point out that a monopolist may have a strategy of concealing information from consumers. Pascal Courty, "Ticket Pricing Under Demand Uncertainty", pp. 627–652; Tracy R. Lewis and David E.M. Sappington, "Supplying Information to Facilitate Price Discrimination", *International Economic Review*, vol. 35 (2), 1994, pp. 309–327.

their money blind,<sup>55</sup> or sellers face an unacceptable risk that ‘sighted’ customers will buy far fewer goods and put them out of business.

The explanation of the paradox of uniform prices is not that some people might be put off by low prices or because others might find higher prices unaffordable. It would not be the end of the world if losses on unsold films had to be covered by raising the price of popular films. The real reason is that a transparent market could unbalance the entire sales system. If the consumer quality of works were guaranteed at the outset by a premium price, or by Einav and Orbach’s discounts, the situation would be radically different. The culture market has, however, evolved without any sobering feedback signals. Accordingly it is based on indiscriminately churning out a huge amount of stuff and selling it all at the same price. Mountains of marketing capacity have been generated in the process, which now need to be given work to do. Who could tolerate signals of quality if a rogue price tag might torpedo an entire advertising campaign, to say nothing of the threat to all the contingent sources of revenue which have sprouted up around culture?

### 2.5.6.1 Block Booking in the Cinema

Not differentiating prices in accordance with quality is also common in business-to-business deals. Wholesale selling is perfectly normal in commerce, particularly in the fashionable clothing sector. In the same way, film producers and studios sell film exhibitors a package under a system known as block booking. The US Supreme Court has twice declared this practice illegal: in the case of the United States vs Paramount Pictures, Inc. (1948); and in the case of the United States vs Loew’s, Inc. (1962). In the Paramount lawsuit contracts between film-makers and film exhibitors were in the spotlight, whereas in the Loew’s lawsuit the issue was selling old films to television stations. The verdict was based on the principle that block booking obliged exhibitors to acquire films they did not want. Producers in their defence claimed that wholesale selling arrangements ensured a sufficient quantity of the product could be delivered. In their research into this topic, Kenney and Klein conclude that block booking is actually intended to get round the problem of exhibition risks of films with their unknown prospects.<sup>56</sup> Without it cinemas would be able to cherry-pick, whereas block booking ensures they accept even mediocre films.

Kenney and Klein liken batch selling of films with the way in which De Beers markets diamonds: only in sets, with the price determined by the average value of

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<sup>55</sup>DeGraba notes that a monopolist may favour pushing consumers to make a purchase while still uninformed as to the value of a good. Engineering a situation of insufficient supply to satisfy demand produces ‘buying frenzies’, where customers do not wait to become informed before making their purchase. Patrick DeGraba, “Buying Frenzies and Seller-Induced Excess Demand”, *RAND Journal of Economics*, vol. 26 (2), 1995, pp. 331–342.

<sup>56</sup>Roy W. Kenney and Benjamin Klein, “The Economics of Block Booking”, *Journal of Law and Economics*, vol. 26 (3), 1983, pp. 497–540.

the diamonds it contains.<sup>57</sup> Purchasers can inspect the package before buying it, and are then free to turn the deal down, but any who do so even once do not get invited back. The authors hypothesise that this scheme protected De Beers from being accused of concealing the diamonds' quality while not allowing purchasers to value them realistically. This enabled De Beers to reduce costs associated with the sorting of stones.

At present economists generally accept Kenney and Klein's interpretation, but Hanssen, having closely studied the detail of contracts between producers and exhibitors, has come to different conclusions.<sup>58</sup> In his opinion Kenney and Klein base their conclusions on an assumption that block booking contracts are imposed when demand for a film is already known.

He shows that in reality this is not the case. He presents three arguments. In the first place, the practice of block booking arose when the films released were very similar in quality, and no new information about their commercial prospects became available after screenings began. In the second place, block booking contracts were much more flexible than the task of imposing a selection would require. In the third place, the agreements in reality left exhibitors many opportunities for manoeuvre which block booking, as understood by its critics, would have seemed to have needed to prevent.<sup>59</sup> In Hanssen's opinion, producers were not lying to the court: block booking really was primarily intended to cheaply provide films in quantity. That is, it was simply an effective method of wholesale selling of the good.<sup>60</sup> When the system was banned, exhibitors of films immediately ran into the problem of a shortage of films.<sup>61</sup> They also discovered that negotiating each film separately was too time-consuming and that they preferred to buy films in blocks.

Block booking reveals the logic of uniform pricing as a regulator of commercial transaction costs. Hanssen observes that, although many exhibitors were probably satisfied with the block booking system, those who were dissatisfied complained to the court that the fewer films they acquired the higher the unit price they had to pay. The producers admitted this, but in their defence pointed out that the fewer the number of copies marketed, the higher the unit cost of the film.<sup>62</sup> Exactly the same

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<sup>57</sup>Major gems are sold separately and the price is negotiated individually.

<sup>58</sup>F. Andrew Hanssen, "The Block Booking of Films Re-Examined", *Journal of Law and Economics*, vol. 43, No. 2, October 2000.

<sup>59</sup>As Hanssen writes, "Post-contractual review of the obligations of renters (in particular extending the period of rental of the film, or shortening it in the case of unpopular films) was perfectly normal, although this is precisely what, according to the hypothesis of Kenney and Klein, was supposed not to be allowed." A. Hanssen, "The Block Booking of Films Re-Examined".

<sup>60</sup>See also, Arthur de Vany and Ross Eckert, "Motion Picture Antitrust: The Paramount Cases Revisited", *Research in Law and Economics*, No. 14, 1991, pp. 51–112.

<sup>61</sup>On the subject of what replaced block booking after it was banned, see Hanssen, "The Block Booking of Films Re-Examined". According to Hanssen, the film studios were required to sell the film rental networks they owned. They were also prohibited from entering into franchise contracts with other cinemas and discriminating between cinemas in terms of the date when films were made available for exhibition, territorial zones and much else besides.

<sup>62</sup>A. Hanssen, "The Block Booking of Films Re-Examined".

relations obtain today between providers of culture and their end-users: the latter can either settle for batch selling at a low price, or be selective and pay a higher price. De Beers' system for trading diamonds benefited not only the company, which economised on the labour-intensive operation of precisely assessing each individual stone, but also the wholesale buyer, to whom a part of that economy was passed on in the form of a discount. In effect, De Beers was forcibly operating a mutually beneficial symmetrical lack of information about quality. Consumers of culture also gain financially by buying products wholesale at an averaged price, but is this really of benefit to them? Yes, if they are content with average goods and services; and no if they are not.

### ***2.5.7 The Main Thing About Price***

What conclusions can we draw from price uniformity? That question is of crucial importance for all mass segments of culture. Uniform pricing of works of different quality which misleads the purchaser to the advantage of the seller is serious evidence that a process of adverse selection is operating in the culture market. We should not put the fact that the symbolic aspects of a product are not reflected in its price down to a fundamental non-marketable peculiarity of culture. The industries of taste and the theatre show that this argument is not sustainable. Culture mediated by a rare object or exceptional performance can be very highly valued, but the mass-orientated markets are not able and, as is by now clear, are not motivated to charge a premium for quality. No institution has bothered to ensure that quality is reflected in prices. Institutions for inspection (audit), insurance, and guaranteeing exist precisely to increase predictability and reduce risk. If anybody were to add value by providing information, their work should be rewarded and reflected in the price. So far nobody has volunteered, and the market is flooded with substandard goods which are outwardly indistinguishable from high quality items. Those producing the best quality lose out in competitiveness, and consumers lose interest in culture. Both the former and the latter are filtered out, giving weight to one of the less common names for adverse selection: 'negative screening'.

## **2.6 Market Agents' Reactions to Adverse Selection**

Adverse selection does not just happen. It is implemented by market agents, and accordingly we need to study how they react within the specific circumstances of commerce in culture. It is not enough to assert that quality has fallen and tastes have been spoiled: we need to establish the role played in this by the various participants. Only after we have analysed their motivations will we be able to come up with the optimal way of combining their different interests.

Let us look first at the behaviour of the principal participants: the producer or manufacturer, the creative artist, the consumer, and the critics. We shall consider

only certain aspects of the role of the state;<sup>63</sup> and the priorities of illegal producers and pirates are perhaps clear enough already. The market behaviour of the participants is mutually conditioned, because they are all to some degree pursuing commercial interests. The main economic player, business, is able to set the pace, and the other protagonists have to adapt their approaches to achieve an economic and symbolic equilibrium. Let us spell out the five main actions of the market agents which promote adverse selection in culture:

1. Business standardises production. Talented creative artists are replaced by craftsmen who can be relied on to provide output at the rate business requires.
2. Creative artists, in order to compete, work worse and/or move out to where they can find better conditions of work and pay.
3. The public decamps to other spheres, prompted by high selection costs and excessive risk of dissatisfaction.
4. The territory of culture is overrun by unprincipled participants.
5. The institutions certifying quality lower their standards.

The commercial logic at work in the digital sectors of culture has already been explained: the high cost of creating and promoting the prototype and the low cost of replicating it leads to a growing emphasis on scale and an attempt to maximise output. This encourages firms to grow larger<sup>64</sup> and leads to oligopolisation of the markets.<sup>65</sup> Major corporations have a parallel presence in many markets in order to optimise summary indicators. Content serves as a platform for commerce. At the behest of commerce, technologies of distribution are created (see Fig. 2.2) and of replication, and advertising orbits the whole shenanigan. Culture is not intrinsically all that profitable,<sup>66</sup> but it is a catalyst for many businesses, sport driving the sports equipment and clothing industries, museums and architecture stimulating tourism, and so on. Often the production of content becomes a wholly subsidised sector within a corporation, as seems currently to be the case with haute couture houses. These may produce no profit themselves but, promoting a brand, they can

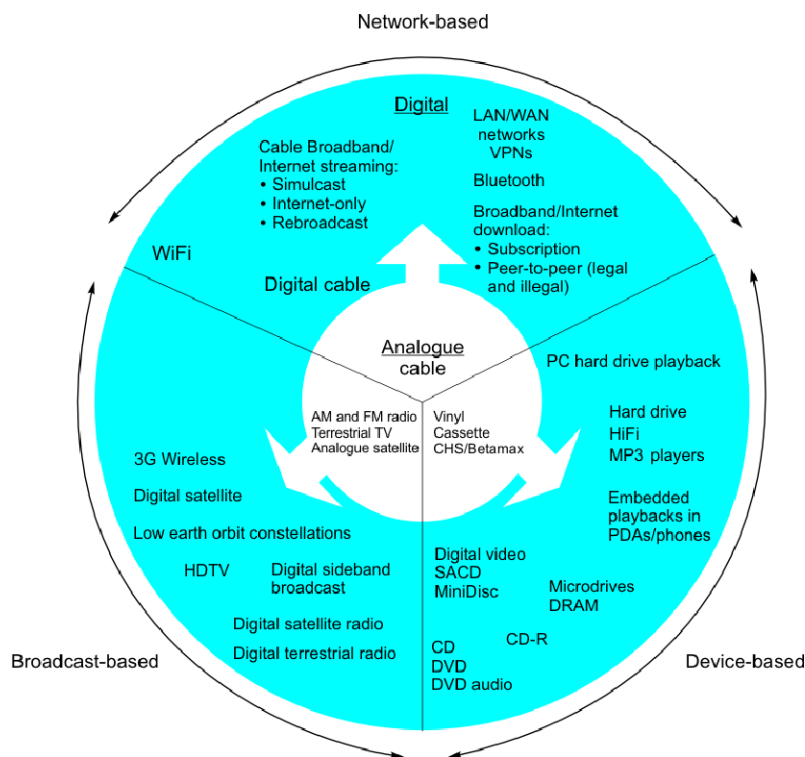
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<sup>63</sup>Culture is acknowledged to be a social good, so if there is underproduction on a commercial basis, the state should intervene to liquidate the market failure. The problems of state cultural policy stem from a lack of clear priorities for distributing resources. This question is addressed below.

<sup>64</sup>Hundreds of billions of dollars were invested in an unprecedented wave of mergers and takeovers intended to create the synergies which would take advantage of digital convergence, a process of interpenetration and merging of digital computer technology and digital data transfer systems. Digital convergence was expected to create new revenue streams while driving down the costs of production and distribution. See N. Parker et al., "What I Want When I Want It: An On Demand Vision for Media and Entertainment Businesses", IBM Institute for Business Value, 2003, p. 4.

<sup>65</sup>On mergers and takeovers in the sound recording industry, see Appendix 1, Sect. A1.4.1.1.

<sup>66</sup>Generally speaking, culture is not even supposed to be profitable in all its segments and undertakings. That is not its first priority. In just the same way there can be departments in the bowels of an enterprise engaged in fundamental research and preparing technological breakthroughs. In accountancy terms these may not appear to be profitable just because their contribution is not visible at every stage. Unfortunately, at the present time financial indicators are the only tool used by management to coordinate the interests of the business and its creative participants.



**Fig. 2.2** Music and video content distribution technologies, 1970–2003. (N. Parker et al., “What I Want When I Want It”, p. 6). Source: IBM Strategy and change analysis, 2003

tow the manufacture of perfume and spectacles behind them. Creative interests can be sacrificed in favour of more pressing commercial priorities, so it can prove difficult and even futile to attempt to analyse the economy of culture in isolation from its attendant businesses. Because of the amount of business it is carrying, art needs to be resilient. Uniform prices and concentration on mass-market products ensures effective marketing through advertising.

### 2.6.1 Degeneration of Creative Artists

In the past nobody has suggested a link between the phenomenon of adverse selection and the fact that fewer talented people and high quality works are appearing. The only negative effects noticed were a cluttering up of the cultural environment and consequent increasing difficulty in discovering worthwhile works. In Russia, for example, there are potentially hundreds of thousands of readers of non-fiction literature, yet by our standards print runs are minuscule—an average of 2,000 copies. In some cases authors and readers fail to come into contact, while in others would-be

readers lack the time to discover an interest in non-mass market publications. Distributors find it unprofitable to supply a geographically dispersed demand and this chronic failure of supply and demand to meet, results in the dismal economic state of high-brow book publishing. Writers in this area have little prospect of obtaining serious royalties. A balance needs to be restored by raising the price of books published in small editions, but this conflicts with the low price expectations of book-buyers. As result, some who might write brilliant non-fiction books never do so because they cannot afford the luxury of living for one or two years without a source of income. They might find a niche in the non-commercial market, but more commonly authors have no wish to be so marginalised and retrain as foot-soldiers of glossy magazines or political journalism.

In this situation, adverse selection would seem to be reducing not only the proportion of high quality books among the vast numbers of crowd-pleasing publications, but also their absolute number, since the financial incentive to write them has been reduced. It seems likely that the percentage of talented people remains more or less constant, but the conditions for talent to come to fruition and the sphere in which it can be applied clearly depend on the social and economic context. People say that talent will always make its way, but it must first be able to find the beginning of the road. We hear only of those who have made it, and know nothing of those who, despite having all the requisite gifts, have been unable to break through, who have not been able to adapt to the demands of the market. The environment for discovering talent is provided by institutions and links between the generations, but even if both of these are present we have to ask whether market mechanisms are facilitating the discovery and flowering of talent. Are they encouraging creative dedication? What kind of predicament does adverse selection place the genius in?

As a result of global economic changes the numbers working in the creative sectors are increasing. Modern information technology and ready access to the achievements of creative people (for both of which, incidentally, we have to thank business) make it easier for talent to be discovered. These two factors would seem very positive, but no improvement in the situation is evident. The consumer is not being offered that many really good cultural products. This suggests that either they are lying around undiscovered, or very little is being created, or we are being unreasonably choosy. It is, however, also entirely possible that the commercial system is preventing new talent from emerging.

Let us look at literature from the viewpoint of the publisher.<sup>67</sup> Large numbers of books have to be published if infrastructure costs are to be covered. This desire to maximise output comes up against a shortage of good writers who, in any case, write slowly. In this situation, how can maintaining quality not conflict with ensuring the necessary rate of output? Any idea of improving quality falls by the wayside. A labour market opens up with an enormous appetite for 'writers'. The

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<sup>67</sup>For further detail, see Alexander Dolgin, "Ukhudshaiushchii otbor na rynke literatury" ["Adverse Selection in the Literature Market"], *Knizhnoe delo*, 2004, No. 1, pp. 52–58; Dolgin, "Platsebo-effekt v literature" ["The Placebo-Effect in Literature"], *Kriticheskaiia massa*, 2004, No. 2, pp. 40–43.

same thing occurs in other spheres, like the film industry. As the director Andrey Konchalovsky testifies, ‘Dilettantes have been pouring in to films and music. They have a rudimentary knowledge of the profession and its techniques, but the language and content, the things in which an artist’s individuality shows through, are in their case an amorphous mess. On a present-day film set everything can take care of itself: top professionals in different specialities could perfectly well make a film without a director. The actors would act, the cameraman film, the sound recordist record the sound, and the cutter edit the film.’<sup>68</sup>

This raises the question of whether technicians in the arts are assisting talented artists or replacing them. An outstanding author, when he takes his place on the production line, is in the same situation as those who are merely filling a gap in the labour market. His priority is necessarily to be no less productive than they are, since his books cost no more than theirs merely because they are more talented.<sup>69</sup> They do, of course, require a greater investment of effort. The book’s price is determined by the cost of production and marketing, not by its content. The print runs of the past which used to provide an author with a decent livelihood are out of the question today. As an example, if a book is published in Russia even in ten thousand copies then, at a retail price of five dollars, the writer can expect to receive no more than five thousand dollars. How much time can he afford to spend writing a book if he wants a decent standard of living? Little more than three months, in all probability, and unless he is a Balzac, that is not long enough. To expect an output of four books a year, or even two, is inhuman. One of George Bernard Shaw’s characters, to be sure, asserted that a real artist is insensible to deprivation. ‘The true artist will let his wife starve, his children go barefoot, his mother drudge for his living at seventy, sooner than work at anything but his art.’<sup>70</sup> But how much truth is there in these words? The majority of artists, particularly those enjoying success, who are, of course, those most commonly interviewed, will publicly deny that they work for the money. Those who, because of a lack of money, have not made it do not give interviews, but say quite the opposite in private.

In order to keep the wolf from the door, an author is obliged to jolly his muse along, or to dispense with her entirely. This shows in the final result. After a time the writer too begins to resemble a squeezed lemon. In the pursuit of economies of scale both managers and authors find themselves like squirrels in a treadmill: the imperatives of capital force the former to publish more and the latter, goaded by their publishers, to write faster and more frequently than is reasonable. Quality is almost always sacrificed.

Although there have been instances in the history of culture when poverty created geniuses, these have been happy exceptions. The pace of production-line book publishing rarely coincides with the tempo of creativity, and since box-office takings

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<sup>68</sup>A. Konchalovskii, ‘Pobeda rynka nad iskusstvom. Kak marketologi berut verkh nad tvortsami’ [‘Victory of the Market over Art: Marketing Managers Are Defeating Creative Artists’], *Rossiiskaia gazeta*, 9 February 2005.

<sup>69</sup>This applies to fiction, but not to business or coffee-table books.

<sup>70</sup>George Bernard Shaw, *Man and Superman*, 1903, Act 1, l. 184.



are usually a greater priority than creative aspirations, business imposes its will on the artist. The publishing house resorts to all manner of devices and blandishments, tying the writer's hands with advances, buying the rights to his future works at the outset of his career. The businessman does not find it advantageous for a famous author to be unencumbered; an author, knowing he will be forced to walk at least part of his way in leg-irons, does his best to adapt and tries to turn the situation to his advantage, at least financially.

Thus he embarks on the ruinous strategy of being economical with the meanings with which he endows his work. This is no longer merely rushed writing, but a cold, calculated choice. Knowing that he is going to have to produce a lot at frequent intervals (the harvest having been sold in advance), the author takes to spreading his creative ideas more thinly. He no longer pours out all that is in his soul every time, before waiting for the creative well to refill. Instead his writing is thrifty and judicious. Not all authors deliberately follow this path. Some stoically resist the temptation to maximise their earnings, and for others the fakery is subconscious. The commonest result, however, is a dilute solution in place of the alchemy of art. This is how the economically based motivation of the key agent in the market (the businessman, the publisher) leads to dilute literature. It is an area particularly vulnerable to filling up with dishwater. The entry barriers to publishing are not high, requiring neither vast sums of money nor an extensive material infrastructure, and the numbers aspiring to fame by taking up the pen are constantly growing. Out into the arena come uncountable hordes of graphomaniacs, to the great joy of printers and booksellers.

Is enslavement by contract a good or a bad thing? The discipline of having to earn your keep is beneficial for many activities, so it is surely not necessarily harmful for an author to be mindful of money? And of course it is absolutely essential that a publisher should be. The problems come when both of them think about nothing but sales and these determine the artistic concept.

One alternative to the market is, of course, patronage.<sup>71</sup> Until modern times it was the only option, before being almost replaced by a commercial alternative as it came to be considered humiliating for an artist to put himself at the service of a patron. The market, impersonally commissioning work, was at first seen as a liberator. Which actually is better for the art: a patron or the box office?

### 2.6.1.1 Patronage or the Market?

There are several first-rate works by economists which ask whether the creative artist is more productive when working for a patron or in market conditions. William and Hilda Baumol support the view that patronage is considerably more effective in developing art.<sup>72</sup> They claim this is demonstrated by the example of Viennese opera

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<sup>71</sup>Patronage implies a lengthy period of employment of a creative artist. It can also refer to a situation where one or several aristocrats commissioned work privately.

<sup>72</sup>William J. and Hilda Baumol, "On the Economics of Composition in Mozart's Vienna", *Journal of Cultural Economics*, vol. 18 (3), 1994, pp. 171–198.

in the second half of the eighteenth century<sup>73</sup> when, under the sponsorship of the royal court, outstanding operas were created and Vienna came to be regarded as the music capital of the world. They employ two criteria to assess the quality of an opera: is it still performed today? How highly is it rated by music critics?

The Baumols give three explanations for the excellence of operas driven by a patron rather than by the market:

1. A patron paid talented composers more in order to entice them to work for him, much as today's wealthy sports clubs buy star players.
2. A patron furnished conditions favourable to creativity: specifically, the composer was not obliged to work in a rush.
3. A patron was not risk averse and welcomed innovation.

These explanations appear to coincide with what common sense would lead us to expect, but another researcher, Timothy King, decided to check his colleagues' conclusions. Recognising that the first (possibly the most weighty) and third arguments were largely speculative, King concentrated on the second. He tried to establish whether operas funded by ticket sales were different in quality from those funded by a sponsor.<sup>74</sup> This is a fairly rare instance of an economist attempting to operate with the category of artistic quality and as such deserves our close attention.

King compared Vienna and Italy over the same period (1751–1790). The former demonstrates patron-driven art and the latter art driven by market forces.<sup>75</sup> King tabulated data about the number of premieres taking place in the major theatres of the time, the works still performed today, and critical assessments of them. Collating this, he found that although fewer than six percent of premieres took place in Vienna, they accounted for one-quarter of those still being performed today. Most others fell by the wayside much sooner.<sup>76</sup> This appeared clearly to confirm the beneficence of

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<sup>73</sup>Throughout history, opera has been financed both by patrons and commercially. This makes it a particularly suitable area for investigating whether the nature of its financing influences the quality of cultural production.

<sup>74</sup>Timothy King, "Patronage and Market in the Creation of Opera Before the Institution of Intellectual Property", *Journal Of Cultural Economics*, vol. 25 (1), 2001, pp. 21–45.

<sup>75</sup>The first opera to be totally dependent on ticket sales was staged in Venice in 1637. The experiment rapidly spread to the rest of Italy. It was adopted most successfully by itinerant companies of artists, and a few years later saw the opening of opera theatres which proved very popular. Although the Venetian opera houses operated as businesses, they did not always make a profit, and indeed this may even not have been expected of them. The requisite subsidies tended to come from the theatre owners who were members of patrician families. They financed opera as a hobby or in order to enhance their social status, supporting the impresario who rented the theatre from them. In other regions of Italy subsidies might come from local rulers or prominent citizens who were regular subscribers to boxes. Partial data on revenue and costs for Modena in 1701 and for Bologna for various years in the eighteenth century indicate that the theatres' revenue covered 60–84 percent of their running expenses. Timothy King, "Patronage and Market in the Creation of Opera", p. 24.

<sup>76</sup>King warns that 'It should not be thought that this is simply due to the popularity of operas by Mozart and Gluck. In Mozart's case, only four of the fourteen operas in the list were first performed in Vienna, and in Gluck's case, only five out of eight.' King, "Patronage and Market in the Creation of Opera", p. 28.

the patronage of Emperor Joseph II, who ruled 1756–1798. King ingeniously went on to compare the destinies of a number of works created by the composers who had worked both at the court and commercially. (The Titans tried their strength in different locations.) This too appeared to confirm that patronage was preferable.

A court composer was not obliged to produce operas at great speed, unlike one working commercially. By and large there was no effective system of copyright in Europe at this time. In Italy a composer working commercially usually received a one-off payment irrespective of his work's success. The situation was similar in Germany. This obliged composers to produce new works frequently.

For example, Giovanni Paisiello composed more than 80 operas, 47 of them in Italy, in 1764–1776, working commercially. On three occasions during this period he wrote five operas in a single year. In 1777 Paisiello took a position at the Court of St Petersburg and at first lowered his rate of output to three operas a year in 1781–1784 he slowed down further and wrote only one. Two of his most famous compositions, *Il barbiere di Siviglia* (1782) and *Il re Teodoro in Venezia* (1784) were written during this period of respite. He subsequently returned to Naples to a position at the court of King Ferdinand. His rate of annual output again increased, but only to two to three per year, and only one of these, *Nina* (1789), has become well known.

A similar example is Domenico Cimarosa who was even more prolific in Italy than Paisiello. Between 1781 and 1784 he composed no fewer than 22 operas. In 1787 he was engaged by the Russian Court and there produced a mere three new works in the course of the next three years. He left Russia in 1791 for a position at the Austrian court, where he created his masterpiece, *Il matrimonio segreto*.

The obvious conclusion would seem to be that commercially funded operas composed in Italy fail the survival test and are not highly rated by the experts because they were written in haste. Composers had no time to come up with something original and polished to perfection. We cannot, of course, be 100 percent certain that composers did actually spend more time on their compositions. We can only say that they worked under less challenging conditions than in Italy, and that their work was far less monotonous. Verdi was to describe the period 1839–1853, during which he wrote 18 operas, as 'years in the galleys'. Niccolò Piccini wrote 56 operas in a single decade (1761–1770), including eight in 1761–1762, and nine in 1770. His best work is considered to be the comic opera *La buona figliuola*, created at the very beginning of that decade of non-stop composition, and following a year in which he wrote only two works.

If we take the period 1751–1790, most premieres took place under market auspices, but the compositions which have stood the test of time and enjoy critical acclaim today are those financed by patrons. Composers who worked within both systems created their best work under royal commission, whereas the operas they wrote for the music markets of Italy and England have mostly been forgotten.

King almost confirms the findings of the Baumols about the baneful influence of the market, but when he came to study the second decade of nineteenth-century Italy he came across an apparent anomaly. In just a few years the young Gioacchino Rossini put Italy back in the lead. More than two-thirds of all the operas he wrote

between 1811 and 1840 are performed to this day. Saverio Mercadante and Giovanni Pacini, who worked at virtually the same time as Rossini, composed 60 and 90 operas respectively. Such a rate of composition could only be achieved by, for example, re-working librettos. Sometimes Rossini re-cycled music from his own earlier operas. His arias followed a standard format. These techniques were soon being imitated. Rossini was followed by such other composers as Gaetano Donizetti and Vincenzo Bellini who kept Italy ahead. In the late 1820s Donizetti was composing three or four operas a year, and in 1830 created *Anna Bolena*, a work which remains in the repertoire today. It was his fourth opera that year, and the twenty-eighth in his career.

This would appear to put the kibosh on the conclusion that the Italian system of mass production of opera hopelessly compromised quality. King concludes, with undisguised regret, that economics is ill-equipped to explain why geniuses have arisen when and where they did. Even this negative result, however, is of value to us in indicating the limitations of traditional economics and encouraging the further development of tools to enable economists to work with the material of culture. King may, nevertheless, have been jumping to conclusions. It is, after all, possible that some geniuses have immense productivity among their other talents, or a gift for putting unfavourable circumstances to good use. More probably, however, certain ideal conditions are needed if creative potential is to unfurl fully: for example, the artist's freedom to decide for himself the rate at which he will work. If a businessman is hassling him over this, he hinders proper self-expression and some creative artists will be completely demotivated. The fact that a number of composers succeeded in coping with the exigencies of the market does not mean they are not damaging.

Business cannot obtain optimal results in terms of volume of output and richness of content at the same time. This poses a real threat of a draining away of talent, which is the real cost of relentless manufacturing and standardisation of products. Business needs a way of filling the gaps between the bursts of spontaneous inspiration of geniuses. It is perhaps only doing its best to satisfy demand by re-using stereotypes which have already proved successful, but production geared to this has little need of originality.

### 2.6.1.2 State Patronage or Private Patronage?

Perhaps the nurturing of talent is a task for the state, whose financial situation is different from that of business. Can the authorities compensate for market failure here? What kind of relationship should a government build with the arts if it wants to go down in history as an effective patron? Which sectors should it subsidise, how and on which conditions? Bruno Frey sidesteps the usual discussion of the merits of state support of the arts<sup>77</sup> by asking what kind of state is needed for its support to

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<sup>77</sup>Cultural economists usually focus on the influence of direct and indirect subsidies (through tax concessions) on the arts and social wellbeing. A survey of the methods of subsidising art is given in Werner W. Pommerehne and Bruno S. Frey, "Public Promotion of the Arts: A Survey of Means",

be effective.<sup>78</sup> He identifies two key factors: the level of democracy, and the level of decentralisation. Authoritarianism is generally thought to be a bad thing for the arts, since dictators are apt to impose their own tastes. Clearly, however, this is not always the case. The autocratic Pope Julian II (1503–1515) hired Bramante, Bernini, Rafael and Michelangelo to build St Peter's Cathedral in the Vatican, and gave a powerful impetus to the arts in the process.

Dictators do not welcome opposition, but democratic countries where power is highly centralised and where cultural affairs are managed by the political elite are little better in this respect than authoritarian states. Artists who fail to conform to the tastes of the party in power will wait long for their subsidies since, from the viewpoint of the authorities, they are not producing good art, or not producing art at all. Under such circumstances expenditure on culture, great as it may be, is distributed very unequally.<sup>79</sup>

In authoritarian states the quality of works varies more markedly than in democratic states, which orientate themselves on the average tastes of the electorate. In democratic states this is more pronounced in those which are centralised. According to Frey, the authoritarian state's influence on art is closer to that of royal patronage: there is less variety, but the range of quality is greater. Democracy is closer to market oligopoly: while the art is more varied, the quality of works is more uniform.

The second question Frey addresses is whether the state is capable of stimulating creative people at all, and this raises questions about the nature of creativity and the artist's inner motivation. Frey inclines to the view that all state intervention undermines inner motivation. Financial help in return for an expected result, and bureaucratic dealings with the recipients, harm creativity.<sup>80</sup> If subsidy is guaranteed, a number of factors which stimulate creativity disappear, and this leads to ossification of the arts. The artist puts a higher priority on retaining the source of his finance than on creating something new. At best, the outcome of state support is neutral. Private individuals are better benefactors of culture, and Frey considers that the task should be left to them. State support should be extended indirectly by reducing taxation on sponsors and artists.

The question of whether an artist should be given money, quite apart from the question of who might choose to give it, is wide open to debate. Orthodox econo-

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*Journal of Cultural Economics*, vol. 14, December 1990, pp. 73–95; and also in the monographs of David C. Throsby and Glenn A. Withers, *The Economics of the Performing Arts*, London and Melbourne: Arnold, 1979; James Heilbrun and Charles M. Gray, *The Economics of Art and Culture: An American Perspective*, Cambridge University Press, 1993; and in Ruth Towse, ed., *Cultural Economics: The Arts, the Heritage and the Media Industries*, Cheltenham: Edward Elgar, 1997.

<sup>78</sup>Bruno Frey, "State Support and Creativity in the Arts: Some New Considerations", *Journal of Cultural Economics*, vol. 23 (1–2), 1999, pp. 71–85.

<sup>79</sup>As examples Frey points to the financing of the construction of the Pompidou Centre, the Bastille Opera, the Arc de Défense and Bibliothèque nationale in Paris, and in Austria to the huge subsidies received by the Viennese Opera and Vienna Philharmonia. In Russia the Bolshoy Theatre is evidently targeting the record for devouring the largest slice of the state arts budget and has generated considerable public controversy in the process.

<sup>80</sup>Frey, "State Support and Creativity in the Arts".

mists who do not take the idiosyncrasies of the arts into account take the view that money has a role to play where a positive link can be identified between the financing and the results of an activity. Frey identifies two current views on this. Art experts and artists themselves tend to believe that creativity is an inner function of personality which cannot be influenced externally. Economists for their part have no doubt as to the effectiveness of external leverage. Inner motivation arises in response to external stimuli, in the arts as everywhere else. If this implies that artistic creativity increases in line with an artist's income, however, credibility is strained.

Psychologists also are in two minds as to whether external financial motivation is beneficial or harmful for creative artists. Some argue that, although artists appear to work more diligently in anticipation of assured payment, what they produce is stereotyped and of lower quality than the output of those working without any certainty of reward. A plausible explanation might be that an artist working to a deadline, fearing that inspiration may not appear on time, will not wish to take risks and will settle for the first halfways reasonable solution which comes to mind. It may not be the best he is capable of, but it is safe. In the absence of an outside sponsor the artist is serving only one master, his own talent. The freedom to listen to his inner tuning fork without constantly worrying about fulfilling an economically based agreement helps talent to flourish. Other psychologists take the view that a finely judged dose of financial encouragement is beneficial.<sup>81</sup>

Frey comes up with what he regards as the golden mean. He argues that, while external incentivisation does tend to displace inner motivation, if the subsidy is perceived as selfless support it can in fact enhance inner motivation. Economic stimulation should not be overdone, but the main thing to avoid is control, sponsorship only in return for strict regulation.<sup>82</sup> If the state provides subsidies but retains levers of control, it promotes the creation of mediocre art. Financial aid, to be effective, must be unconditional, leaving artists complete creative freedom but, as Frey adds, ensuring that resources are not squandered. He is unaware, apparently, that this is precisely the kind of control he is condemning.

Psychologists specialising in the motivation of creativity will doubtless find Frey's approach fairly vague and unsophisticated, but they themselves have yet to provide persuasive guidelines on how best to assist as many genuinely creative artists as possible. They coyly refrain from generalised recommendations, acknowledging that a standard dose of economic remedies will only prove harmful. The state, meanwhile, needs to act, so it does the best it can with only one, financial, control lever and hopes no one will have the gall to accuse it of wasting scarce resources on culture.

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<sup>81</sup> See, for example, *Sovremennaia psikhologiya* [Modern Psychology], ed. Vladimir N. Druzhinin, Moscow: Infra-M, 1999; Vladimir Druzhinin, *Psikhologiya obshchikh sposobnostei* [The Psychology of Common Abilities], SPb: Piter, 1999; Evgenii Il'in, *Motivatsiia i motivy* [Motivation and Motives], SPb: Piter, 2000.

<sup>82</sup> Bruno S. Frey, *Not Just for the Money: An Economic Theory of Personal Motivation*, Cheltenham, UK and Brookfield, USA: Edward Elgar, 1997.

If the experts are unable to provide the state with foolproof recipes for stimulating the arts, they can at least warn against what is likely to do harm, and that is any neat contract spelling out the obligations of the two parties. This, of course, is precisely the relationship between the artist and the businessman. It might be possible to observe the fine distinction between good incentivisation and bad incentivisation if the individual circumstances of the creative artist were given full consideration every time, but in the meantime the state has no satisfactory formula for optimising cash injections and there is no reason to suppose it ever will.

If the well-worn approaches to subsidising culture are ineffective, is it not perhaps time to try a different approach by mobilising the resources of the consumer community? The problem of financially motivating creative artists can be solved by devising a fundamentally new source of finance and a different logic of recompense – gratuitous monetary payments by consumers direct to the artists, performers, et al. Funds could be generated within the framework of monetary collaborative filtering, and the same technology makes it possible to allocate contributions to the correct individuals.<sup>83</sup> This would mean that the finance was largely independent of commercial interests. Today the creative artist receives perhaps one-tenth of the price for which his product is sold. We can already see that consumers have no objection to a 15–20 percent supplement on the price of a ticket to cover, for example, the services of ticket retailers. They are prepared to pay even more than that to speculators: between one and a half to two times the face value of the ticket. If even a proportion of such amounts were channeled to the creators of works which had been appreciated, their income would increase several times over while their creative freedom remained completely unaffected. The arts would be beholden only to their public, which is, after all, something they seem to long for.

### 2.6.2 *Degeneration of the Public*

Business, blindly following commercial imperatives, standardises the quality of cultural production, but how does the public react to this? Does it turn away in disgust? Alas, as a rule, nothing of the sort occurs. The predictability of cultural goods seems to be regarded as a good thing, and it is not difficult to guess why. You know from past experience what to expect from a standardised product. When you go to see a blockbuster movie you know what you are paying for. As far as the market is concerned, the aim has been achieved: people are buying the product, so they must like it. This argument is valid, however, and even then only to a certain degree, in respect of long familiar products aimed at producing a predictable reaction. If the good is something original, the risk that consumers will be disappointed is very high. They have paid in advance for an unknown quantity, and they read or view it only afterwards. Loss is inevitable, even if it is disguised.

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<sup>83</sup>There is provision for this in the plan for creating a general recommender service using money-based collaborative filtering as outlined in Chap. 1.

In Russia, for example, fiction is sold relatively cheaply in comparison with the rest of the world. Price variation between books is almost negligible. This might seem good news for book-lovers with their modest purchasing power, but since literary merit is not reflected in the price, counters are piled high with book-shaped waste paper. In full accordance with the law of adverse selection, primitive typographical items crowd out authors and publishers who worry about quality. In order to buy an enjoyable book, one is forced to browse through (or buy and then browse through) ten, twenty or thirty low-grade offerings. Quite apart from the cash cost of wasted purchases, the reader is additionally burdened with the time cost of sampling texts.

Although the culture industry in its present form has de-sensitised the consumer to non-monetary costs, reading something you do not enjoy is still an entirely real cost. The public do not notice what is plain to an economist: cheap books are by no means as cheap as they seem. Let us suppose that someone buying a book manages, with improbable precision, to hit the bullseye one time in four. This implies that, if the book industry were differently organised, he could derive equal enjoyment from buying only this fourth book at a price four times higher. He would additionally save on disappointment and wasted time. Anyone who values their time should find the higher price not unreasonable.

The wasting of money, time and emotional energy is not the full extent of the problem. A less tangible loss is also being suffered, taste. Malleable by nature, it becomes deformed and less fastidious. At first glance people seem to choose only what appeals to them, but the reality is that taste adapts to what is on offer, and that is determined by what the publishing industry finds it convenient to sell. Quality is pushed to one side. Setting the standards, commerce gives the seal of approval to pseudo-art, debasing the taste of consumers. Their receptors of artistic quality react just as the digestive system reacts to a diet consisting solely of easily digested food: by atrophying. Underlying aesthetic taste is a subtle discriminating ability which needs to be kept in trim. In order to keep fit, it needs a steady supply of challenging works of art. How many books published in recent years are capable of meeting this need? People get used to trashy reading matter just as they do to poor-quality tea, and all the while the belief that book prices should be low etches itself in the mind, together with a decline in esteem for literature itself. Ultimately the general public can become so fazed that it gets used to buying any old garbage at a rouble a bucketful, in much the same way that Hollywood films were sold by the foot in the early twentieth century.

A discriminating reader does of course detect the deception and adjusts his reading. The author with a literary quota to produce, like a child concealing the stewed fruit he has scoffed, fills his creative saucepan to the requisite level with water. The consumer reacts to this in accordance with Le Chatelier's principle of chemical equilibrium to restore the status quo by counteracting the variation. He adapts in such a way as to compensate for the deficit of aesthetic value. The author writes his book in aesthetic energy-saving mode, and the reader reacts; the man of letters spreads his creative ideas thinly, and his reader skates the surface; the writer distributes his bait frugally through the text, the reader ups his scanning speed and hurtles at express speed from one substantial passage to the next. Cultural GDP is not increased,



and all that happens is that transaction costs go up because of the initial dilution and subsequent distillation of meaning. The whole thing results in a great deal of wasted effort on the part both of authors and readers, which serves only to keep the millstones of business grinding.

If the situation is repeated time and again, sophisticated readers will opt out of modern literature altogether. They will refuse to settle for 'saleable products' and the ever rarer satisfaction to be had from a text. The market's rules condemn these people to greater costs or greater risks than they are prepared to accept. With the passage of time the market for literature empties, abandoned by the more demanding readers so crucial to its prospering, and shortly afterwards by the best authors. The more restricted the circle of genuine book-lovers, the more difficult it becomes to serve them with any degree of economic profitability—and the fewer altruists there are prepared to engage in this unrewarding business.

This pattern is repeated in every segment of culture. If a highly original film is made with a potential audience of 100,000 cinema-goers and can be viewed for \$5, financial losses are virtually inevitable. Often, of course, the would-be consumers are not so few in number, but they are dispersed and it is expensive to inform them of the existence of something good and to market it to them. With very few exceptions, films of the generally expected level of technical quality cannot be made and promoted for less than half a million dollars. The only hope is non-commercial sponsorship. Niche films have to be low-budget and lose out in quality, in certain important respects at least.

Refusing to take the risks involved in any departure from the standard behaviour dictated by market rules—which is the lifeblood of writers and readers—leaves literature struggling. If outstandingly good works are not created in sufficient quantity, the pulse of culture weakens. Talented, innovative works are like a ship's propellers. Without them the ship of culture floats downstream, monetary flows prevail and carry it away in the wrong direction.

### 2.6.2.1 A Pragmatic Definition of Art

Commercial culture aims to please the public. Is that such a bad thing? Do businessmen ruin people's tastes by pandering to them? Students of culture like to debate this topic, and invariably arrive at the 'dichotomy between the arts and commerce'. Arguments about mass versus elite culture, high-brow versus low-brow have been going on for years and are no longer fruitful. One of the reasons is that these are false antitheses. In the real world you cannot do without either. This, however, does nothing to inhibit the debating, which is based not only on a conflict between the interests of commerce and creativity but also on simple terminological confusion. 'High' and 'low' are not characteristics of a single entity called art, and neither are they variants of it. They are different *kinds* of art.

The kinds of art are different, but the criteria applied to them are the same. 'Art' can be defined rigorously, art as it is viewed by art critics, or it can cover anything which, for a variety of reasons, produces an aesthetic effect on an individual. In

the view of most critics, ‘the artistic vision ought to reveal something new, that is, something which does not already exist in an art archive’.<sup>84</sup> But a work does not have to be original in terms of art history in order to be original for a particular consumer, no matter what the critics say.

It is not a simple matter to reconcile these different approaches. Another critic says of music, ‘On the one hand it needs to be highly recognisable and memorable, a new tune filled with deep and genuine feeling; on the other hand it needs to be understandable at first hearing, not boring, wholly pleasing. Unfortunately these two requirements are never met simultaneously. A tune is either new, or it is recognisable and easily swallowed first time.’<sup>85</sup>

The different storeys of the edifice of art should correlate in much the same way as fundamental science and engineering co-exist—in relative harmony. Popular art and elite art are like interconnecting vessels, with business pumping problems, tasks, equipment and technologies from lower to higher, and ideas and solutions coming down in the other direction.<sup>86</sup>

It is often a mistake to ask what is better without asking, ‘Who for?’ Is the work of the genius which can be understood only by a few select individuals better than the work of an averagely skilful writer who has won the hearts of millions? Much more germane is the question of how a particular public should identify the works suited to it, and also what the nature of the link between elite and popular art is: which of them is the symbolic donor and which the recipient? What is the optimal proportion of each of them, and is business capable of sustaining that ratio in a market suffering from adverse selection?

In the past, exemplary works were created for elite circles and were assimilated as they trickled down through the layers of society.<sup>87</sup> Today the situation is more complicated and we have to address the question of how, alongside economically viable ‘low’ art, production of high quality artefacts for restricted groups of consumers can be made profitable. How can they be notified of its existence? The task is to ensure that the proportions of high-, middle-, low-brow and all the intermediate categories of art are optimal for society. What is supplied should not only satisfy different tastes, but stimulate their development. Adverse selection distorts the balance in favour of low-brow art. Those businesses which cater for the mass market are immeasurably more successful than those producing a high-quality product for a narrow stratum of a demanding public. If we can successfully introduce a money-

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<sup>84</sup>B. Groys, *Kommentarii k iskusstvu [Comments on Art]*, Moscow: *Khudozhesvennyi zhurnal*, 2003, p. 251. Groys goes on to write, “The economics of innovation restrains rapid artistic growth... A large amount of what is created, or perhaps one should say, put forward as art, if compared with existing archival materials appears tautologous, derivative, superfluous, and is accordingly rejected. This is not always the fault of the art” (p. 252).

<sup>85</sup>This is the opinion of the well-known music expert, A. Vargaftik. See “Muzykal’nyi protsess: v ozhidanii nevozmozhnogo” [“The Music Process: Anticipating the Impossible”], *Apologiya*, No. 1, p. 162.

<sup>86</sup>Patent rights retard this process.

<sup>87</sup>In accordance with the Veblen-Simmel trickle-down theory.

based system for post-consumption rating of works, it will help to counteract adverse selection and to bring the supply and demand for cultural goods back into balance.

### 2.6.2.2 The Placebo Effect in Culture

A cultural product which displays no major originality in terms of universal appeal, or even just a little originality which could appeal to one or two consumers, can, if it is competently exhibited in the culture markets, produce a strong reaction in the public. It can do so despite the fact that its creator invested precious little creative effort in it. An analogous medical phenomenon is the placebo effect, when a patient feels better after taking tablets which contain no drug. Just the fact of taking something you believe will heal you mobilises the organism's resources.

Pseudo-cultural products can produce a similar effect. Even if experts could readily demonstrate that they possess not an atom of artistic originality, providing they are convincingly packaged and presented they can trigger the relevant consumer reflexes. Aesthetic experiences are born of the imagination and memory, in an individual's willingness and ability in particular circumstances to aestheticise and animate any object. Without invoking the placebo effect it is impossible to explain the success of low-grade soap operas and those unfeigned emotions they engender in the mass viewer.

People take the counterfeit coin for real currency and use it accordingly. When everybody around them is reacting in the same way, the deception is unnoticeable. This does not mean, however, that nothing is amiss. Counterfeiters whip up inflation. They do the same in culture, but registering the extent of the devaluation is immeasurably more difficult. Society has no means of doing so.

Something favouring the appearance of the placebo effect is the lack of criteria in present-day art.<sup>88</sup> There are also the commercial pressures driving creative people to 'create' more output. In different circumstances an author would have the resolve to burn what he had produced, but contractual obligations stop him; and since the border between art and non-art is fluid, authors allow themselves to transgress it.

The spectator/viewer/reader does his best to unearth significance where none was ever put, and this process of scrutiny and interpretation is an end in itself. Expectations are a kind of trampoline which propels even a puny gymnast in the right direction. It is not all that crucial where the initial impulse comes from. The author and the reader as his co-author are in a single harness as they move forward the burden of cultural communication; and if for any reason the former starts slacking, the latter is obliged to work harder. This can produce good results, since the process is less about transportation than spiritual effort.

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<sup>88</sup>In particular, Boris Groys notes the absence of criteria for judging whether something is or is not art: "When we turn to assessment and the criteria by which contemporary art is assessed, we find there are no criteria left other than the market price." Groys, "'Bol'shoi proekt' kak individual'naia otvetsvennost'" ["'The Grand Project' as Individual Responsibility"], p. 43.

Treatment using a placebo is the more effective if there is faith in the reputation of the doctor; in the cultural placebo the overall reputation, the ‘brand’, of culture itself is at work. It is generally believed that by becoming a parishioner of culture you are doing something positive for yourself.

Is the placebo effect harmful? It can be if it replaces genuine treatment, but even a placebo is probably better than nothing. Reliance on a cultural placebo results from an absence or ignorance of genuinely effective art ‘medicine’. For many, free time is burdensome and there is unfortunately no means of preserving it. This no-win situation produces a demand for cultural dishes which would otherwise have little prospect of making it on to the table.

Having paid their money people sit out a film purely because they have nothing better to do. In parallel, new ways of behaving become commonplace. A visit to the cinema is augmented with contingent activities: people play with their mobile telephones, munch crisps, walk about carrying trays of drinks. In short, they switch between the action on the screen and activities which enhance their enjoyment, thereby making a very rude gesture in the direction of the film-maker. If things continue in this way, buffet revenue will provide a more reliable measure of a cinema’s success than its takings at the box office. Those in the press who award films their asterisks will be able to check their assessment against the sales of popcorn.

The new modes of behaviour are hardening into stereotypes and being carried over to serious cinema, which is ceasing to be appreciated at all. The problem is not that dilute art is targeted at the less demanding consumer—that is perfectly legitimate. More worrying is that business sees the production of such output as its sole priority. More worrying still is that the audience itself is degenerating, which makes it increasingly risky to stake money on trying to produce anything different.

### **2.6.2.3 Price as a Guide in Fostering Good Taste**

Placebos are sought after in inverse proportion to the availability of real medicine. It makes no difference whether there actually are none, or whether for some reason it is just very difficult to find them. The price system for digital works makes the search no easier, with a consequent worsening of the opportunities for developing good taste. In traditional culture, for example in fashion, prototypes are coded and ranked by a system of price and social mechanisms. Purchasers ascertain the quality of items from the price and from the circle of people who choose to wear them.

Striving to interpret these signs on how to dress, the beginner makes mistakes at first. He or she fails to understand all aspects and nuances of the system of coding. Over time, making one purchase after another and observing the choices of others, the consumer becomes expert. In the course of a systematic and in many ways rational process he develops better taste. Not every offering is accepted, only those which for some reason are judged preferable. Usually this stems from the desire for a particular look, measured against affordability. Thanks to differentiated prices and the availability of role models, good taste can be developed step by step and among friends. The tasks to be accomplished are not too easy or too difficult. They

are interesting and are accompanied by emotional reinforcement. The game of good taste is played in public to coherent rules. The items with which people surround themselves tell us about them, serving as indicators of their status and taste and as a touchstone for those around. We observe a variety of collaborative filtering in which the buyer has the benefit of seeing the preferences of people with whom he or she can identify. The hierarchy of quality goods is plainly visible. The link between quality, price and the status of their owners can be discerned without difficulty. Anybody wishing to can join in the game, and succeed in accordance with their diligence and financial resources.

Improving taste requires a carefully staged transition from simple to complex matters in what physicists call quantum transitions. In the digital segments there is no standard provision for training taste (by indicating success, controlling exposure to originality, providing clear guidelines and sequential stages). The only exception here is computer games, which are unique educative programmes which can adjust the complexity of the task to be resolved precisely and organically to the abilities and interests of each individual player. He himself regulates the rate of his advance from one level to the next, and this is basic to the popularity of these games. In most of the digital segments, however, consumers have no systems of this kind by which to regulate the rate or direction of their progress. 'Another's heart is a mystery', and you can only guess at the extent to which a work of art has been appreciated by a particular person, which rules out profiting from someone else's experience.

In order to develop taste, a system of guidance is needed, and this can be provided by prices and role models. If, however, prices are uninformative and the role models hidden from view, then examples suitable for evaluation by those at primary school and examples appropriate to university graduates get hopelessly mixed up. The result is that entry barriers to developing good taste are extremely high. To attempt to appreciate everything in the order it is presented to you is almost certainly to rush between some tasks which are excessively elementary and others far beyond the limits of one's understanding. In both cases the effort is being made with less than optimal efficiency.

In order to acquire the skill required for appreciating serious music, for example, the listener is going to need to invest considerable personal effort and to be systematically instructed. The bulk of consumers are 'incapable of adequately appreciating the music products created today. They merely hear noise. . .'<sup>89</sup> The higher the entry barriers to music, the narrower the circle of connoisseurs. Most people never progress beyond entry level, and their leisure time becomes an easy prey for sub-standard art.<sup>90</sup> Having repeatedly encountered insurmountable obstacles, the consumer loses interest in continuing his quest.

Lowering the entry barriers to high quality cultural consumption is something that would have a major impact on consumers' interests, and this is precisely what

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<sup>89</sup>A. Vargaftik, "Muzykal'nyi protsess" ["The Music Process"], p. 163.

<sup>90</sup>The expression 'nobrow', designating 'the space between high and low culture', belongs to John Seabrook, *Nobrow: The Culture of Marketing, the Marketing of Culture*, NY: Knopf, 2000.

can be expected from a large-scale introduction of money-based collaborative filtering. By removing the scales of uniform prices from consumers' eyes, this method is capable of facilitating the development of good taste in both the physically mediated and the digital sectors.

Although the mechanism of collaborative filtering is based on people having similar tastes, there is no danger that it will average them out. Quite the opposite: through observing other people's preferences, the consumer will be able to identify kindred spirits and this will lead to differentiation of the public. Each participant will be able to decide for himself which taste community he fits into. Each act of consumption and his subsequent rating of it will advance his personal development of good taste. The whole system of cultural exchange will be put on a different intellectual level. Collaborative filtering will enable the consumer community to assume its rightful place in the market as an institution which indicates to creative artists what kind of product is expected of them.

### 2.6.3 *Overworking the Critics*

We have thus far been presenting the consumer, with his malleable taste tending to atrophy, as completely at the mercy of the businessman. We have, however, been keeping an important player in reserve: the critic or, in a broader sense, the institution which points out worthwhile works to the public. The figure of the art critic appears in the late eighteenth and early nineteenth centuries, called upon to legislate on taste and sit in judgement over the artist. Unlike philologists and art specialists, economists<sup>91</sup> view the institution primarily as a provider of information to potential consumers, and see it as performing an essentially navigational function.<sup>92</sup>

If the underlying cause of adverse selection is information asymmetry regarding the quality of works, any institutional activity tending to reduce that will help to counteract adverse selection. Expert institutions need to be recompensed for their service and accordingly, openly or covertly, they are susceptible to pressure from those who pay them: film-makers, distributors, advertising agencies, sponsors etc. Although consumers do not contribute directly to their upkeep, they are the target audience and, as the aims of the public are often at variance with the aims of the professional participants, the critics have to maintain a balance of interests. Their success can be judged by the extent to which they facilitate consumer navigation.

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<sup>91</sup>The art or science of literary criticism compares, analyses, interprets and evaluates literary works. J.A. Cuddon, *Dictionary of Literary Terms and Literary Theory*, Penguin Books, 1991, p. 207.

<sup>92</sup>The first collections of articles on cultural economics, edited by Throsby and Withers, had no articles about the part played by criticism in the consumption of works of culture and art. See C. David Throsby and Glenn A. Withers, eds., *The Economics of the Performing Arts*, London: Edward Arnold, 1979; and Harry H. Kelejian and William J. Lawrence, *Estimating the Demand for Broadway Theater: A Preliminary Inquiry*, in William S. Hendon et al., *Economic Policy for the Arts*, Abt Books, Cambridge, 1980, pp. 333–346.

Rating and attestation of works makes use of different technologies and the institutions differ in the extent to which they can be automated and how the manpower is allocated. We can identify three kinds of rating institution: individual experts (critics); collective institutions like prizes and competitions; and rating systems. The first group independently select and review items. A significant proportion of the available information is processed by critics who are a kind of intellectual labourer. No doubt they cooperate with each other and make full use of contiguous institutions like reputable publishing houses, festivals, ratings, and box-office information. Even so, the expert is faced with an enormous amount of reading. A literary critic writing a weekly column will need to check out some twenty books in order to select two or three for review, which must place a severe strain on his intellectual digestive system. Over time there is a danger he will get bogged down in routine and come to resemble a mere information bureau on the current repertoire. It is no easy task to know more than the titles of thousands upon thousands of songs, books and films.

The sheer drudgery would be immeasurably greater if the art community did not operate a system of mutual alerts, which is a pre-digital form of collaborative filtering. As a result, in nine cases out of ten the professionals knows in advance what to focus their attention on.

The second form of attestation comes from competitions, festivals, biennales, tournaments, literary prizes and so on. These sift out the most interesting artists and work on a collaborative basis and their work is in some ways more comprehensive. The judges, like the critics, have to 'manually' examine everything entered for the competition. Some rationalisation is possible by having the material systematically pre-selected, for example by regional commissions.

The work of rating systems which generate information about quality is automated. It includes rankings, charts, billboards, and statistical sources where data is collected and processed automatically. The primary assessments come from consumers themselves, or from carefully balanced focus groups. Among these providers of information on quality we should no doubt include bookmakers, ticket touts and pirates, although this is a side product of their main business.

## ***2.6.4 The Cost Disease of Manually Attesting Art***

### **2.6.4.1 Consumer Navigation and the Role of the Critic**

The usefulness of expert institutions for the consumer depends primarily on the quality of their recommendations. Does their trawl net the best works, is their advice accurate and relevant? These questions are considered by Eliasberg and Shugan on the example of film criticism. They ask whether critics influence a film's box-office success or merely predict it. This is not an idle question, particular for film distributors. Representatives of the film industry need to adjust their marketing plans depending on what they can expect from the critics: a cold shower or a building-up of expectations, help with promoting the film or nothing at all. If critics are

influencing consumers, they need to be cosseted, if not there is no point in wasting money on them. Their only real use in the latter case would be as a source of advice during the making of the film.

Eliasberg and Shugan claim to have found a novel approach which makes it possible to give an answer to this question on the basis of empirical evidence. If critics are exerting influence, this should be particularly evident from box-office takings when screenings first begin, since at that moment the grapevine among cinema-goers has had no time to start working.<sup>93</sup> Accordingly, rather than confine themselves to consideration of total box-office revenue as is customary, Eliasberg and Shugan analyse the dynamics of a film's takings. Comparing weekly ticket sales data with the volume and content of reviews,<sup>94</sup> they reach the unexpected conclusion that the effect of what the critics say on initial box-office takings is statistically insignificant: the critic is a weak motivator for getting people to go and watch a film. On the other hand, he is a good predictor, since reviews are found to correlate quite well with later and total box-office revenues.<sup>95</sup> If the conclusion of Eliasberg and Shugan is correct, are film-goers ignoring their writings when deciding what to see? Certainly, not everyone reads reviews. Surveys have shown they rank tenth with students and other young people (on whom the film industry relies to make its money) in influencing choice. The most important influence on them is the film's trailer,<sup>96</sup> and as we shall see, there are good grounds for taking critics' opinions with a pinch of salt. Boris Groys has noted in a slightly different connection that after a long history of revolutions and abrupt changes of direction in art the public has concluded that it is immaterial whether a review is positive or negative. A negative review may even be a better recommendation. Today's reader takes note only of which artists are mentioned, where, and at what length. This tells him how important the artist is, and he discards the rest.<sup>97</sup>

There is of course an elite band of consumers well able to read between the lines of a review, but their reactions have yet to be studied. Researchers question whether negative reviews diminish interest in a film. The role of positive reviews is unfortunately also open to doubt.<sup>98</sup> In certain sectors and in particular cases, critics can, however, make a great deal of difference. It is claimed that a negative review by

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<sup>93</sup>Michael H. Burzynski and Dewey J. Bayer, "The Effect of Positive and Negative Prior Information on Motion Picture Appreciation", *Journal of Social Psychology*, 1977, pp. 101, 215–218.

<sup>94</sup>The authors compiled a database which included indicators of box-office revenue for films in 1991–1992 and showed the percentages due to distributors, the number of cinema auditoria in which they were screened, and analysed the information by the week.

<sup>95</sup>Myron Buor shows that the assessment of films by critics and cinema-goers correlates well, in his article, "Reliability of Ratings of Movies by Professional Movie Critics", *Psychological Reports*, vol. 67, August 1990, pp. 243–257.

<sup>96</sup>Catherine Levene, "Marketing Art-Films to College Students", Working Paper, The Wharton School, University of Pennsylvania, 1992.

<sup>97</sup>Boris Groys, "Kommentarii k iskusstvu", p. 19.

<sup>98</sup>Robert O. Wyatt and David P. Badger, "How Reviews Affect Interest In and Evaluation of Films", *Journalism Quarterly*, vol. 61, No. 4, Winter 1984, pp. 874–878. They later revised their conclusion, having discovered that an informative review stimulates more interest in a film than does a



a respected critic can be fatal for a Broadway production.<sup>99</sup> It is, however, virtually impossible to torpedo a blockbuster like *Terminator*.<sup>100</sup>

The minor influence of experts can, of course, be partly explained by instrumental causes: it can be difficult to lay your hands on a review by a critic you trust just when you need it.

Despite all this, the media hire hacks to keep tabs on films and review new releases, hence the myth of the omnipotent critic whose hold over his readers affects success at the box office. Film-makers scare each other with tales of films brought low by negative reviews. The promotion campaign for *Sleep With Me* is said to have collapsed as the result of a malevolent press. The fear of negative reviews can seem almost to lead promoters to regard the critics as a more important marketing target than cinema-goers. The techniques for sweetening them up were devised long ago. Some are invited to previews, introduced to the stars and mentioned in advertising. Attempts are made to neutralise ill-disposed hacks.

Eliasberg and Shugan<sup>101</sup> question the effectiveness of this engineering of positive reviews. They accord critics a role as indicators of consumer reaction but deny them any great impact on box-office takings. The experts can predict success, but not make it happen. If a review can assuredly exert some influence, the choice of which film to see is affected mainly by the buzz surrounding it: the trailer, the advertising, and word of mouth. Cinema-goers pay scant attention to what the critics say, so spending good money in the pursuit of laudatory reviews is little more intelligent than bribing the Meteorological Office in order to improve the weather forecast. This is not to deny that consumers of culture have an interest in the weather forecast.

Critics in the media try to adapt their reviews to the tastes of their readers so that the latter should find them interesting to read. If they fail they will have no option but to seek a different audience in a different media outlet. Accordingly, a consumer intending to rely on a journalist's recommendation needs to know who the critic is writing for. If his review is intended for adolescents, an older film-goer is unlikely to understand the language. The same is true of specialist publications. This is perhaps why so few people read reviews as a guide to action.

Criticism is, of course, not only of value as a navigational aid. A review is often a work of art in its own right, and not infrequently more interesting than the work

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positive one. Robert O. Wyatt and David P. Badger, "Effects of Information and Evaluation in Film Criticism", *Journalism Quarterly*, vol. 67, summer 1990, pp. 359–368.

<sup>99</sup>Although credible, this theory has yet to be confirmed convincingly. See Samuel Cameron, "On the Role of Critics in the Culture Industry", *Journal of Cultural Economics*, vol. 19, 1995, pp. 321–331.

<sup>100</sup>The results of the "Cinema" experiment conducted by the Pragmatics of Culture Foundation indicated that cinema-goers did not like *Terminator 3*, even though these were in the main enthusiasts of the genre. The average monetary assessment of participants in the experiment was 16.21 roubles [32 pence]. Reviews were also lukewarm, but the film was a box-office success. Revenue from screenings in Russia was \$12.2 million, and in terms of the box-office takings it was the fifth most successful film in the history of the cinema in Russia (as of late 2005).

<sup>101</sup>Jehoshua Eliasberg and Steven M. Shugan, "Film Critics: Influencers or Predictors?" *Journal of Marketing*, vol. 61, No. 2, April 1997, pp. 68–78.

under review. This second function of criticism is to extend and deepen the lines of communication. Criticism in this sense encompasses the whole spectrum of comment on a work, analysing it, placing it in context, and possibly using it as a peg for expounding the critic's own artistic or socio-critical views. This function, which the philosopher Merab Mamardashvili calls a broadening of the act of reading,<sup>102</sup> lies outside the boundaries of our analysis.<sup>103</sup>

Modern criticism is trying to develop into an autonomous art form, so is it any wonder if surveys indicate that people rarely rely on reviews as a means of navigation? They are more likely to read them purely for pleasure. Such a critic needs to write more interestingly and strikingly than the work which is the subject of his review, but the sheer volume of artistic material he has to process works against the honing of every phrase. The critic has to choose between the roles of a former or a predictor of opinion. Most genuinely professional critics have a clear picture of the tastes and preferences of their readership, and hence are able to accurately predict the commercial future of a film. In the eyes of their readers they acquire a reputation similar to that of a supermarket which, targeting a particular category of consumers, does not sell items which fall below a certain level of quality. Nor, it has to be said, which rise above it.

#### 2.6.4.2 Where Do Critics Find Pure Water?

I have been persuaded in the course of my "Theatron" and "Cinema" experiments that it is in fact possible to predict cinema-goers' reactions.<sup>104</sup> In order to carry out the experiments I needed a spectrum of films so as to obtain polar assessments: outstanding successes, dismal flops, controversial films, and films which were neither flesh nor fowl. This made it possible to identify possible types of reactions of cinema-goers, from 'a total disappointment', when a participant, as agreed under the conditions of the project, decided to take back the money paid for the ticket, to 'absolutely fantastic' where he voluntarily paid a supplement out of his own pocket. In order to select the necessary range of films, it was necessary to try to anticipate the audience's reaction<sup>105</sup> by studying between five and ten reviews of each film. Additionally, data was collected on box-office takings over the first weekend, and average ratings of the films were compiled. The ratings of critics and consumers

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<sup>102</sup>Merab Mamardashvili, "Literaturnaia kritika kak akt chteniia" ["Literary Criticism As an Act of Reading"], in M. Mamardashvili, *Kak ia ponimaiu filosofiui* [How I Understand Philosophy], Moscow, 1990, p. 161.

<sup>103</sup>He also says that criticism is always a form of elucidation. This raises the question of what kinds of commercial pressure there are on the critic. The market does not always see elucidation as being in its interests.

<sup>104</sup>For more detail see Appendix 4.

<sup>105</sup>The aim of the experiments was to test the present book's central hypothesis of the feasibility of using voluntary additional payment by spectators as a means of registering their ratings.

generally coincided quite closely, as Wanderer, for example, also found.<sup>106</sup> As the experiments were conducted in actual cinemas, there could be problems in finding films of the requisite character.<sup>107</sup>

One minor disaster occurred when we urgently needed an unambiguously bad film. We were confident this would not present any difficulty. *Dirty Pretty Things* and another film with an equally off-putting title had just been released. There was no time to check the press in advance, and we put our trust in the title. How great was our consternation when it transpired during the showing that the 'pretty things' were not at all what the cinema-goers or the organisers of the experiment had assumed. They were much more dire, and the film itself was outstandingly good.<sup>108</sup>

Apart from that one glitch, however, our choice of films, based mainly on reviews, proved fairly accurate. Preliminary navigation required approximately one quarter of an hour collecting reviews on the film, and up to a further half hour reading them. There would seem to be no good reason why anybody going to the cinema would not do the same, but as far as we know, with rare exceptions, nobody does. Why?

Having to spend half an hour preparing for a visit to the cinema strikes most people as bothersome. Even if we classify and price such navigational work as unskilled, the cost is close to the price of a cinema ticket. Interpreting reviews is in fact skilled work, particularly in the case of a film on general release, or nominated for a prestigious prize, or made by a cult director. Critics cannot ignore such events and they all write reviews. One can find information in any newspaper, but the impression of easy navigation in cases like this is deceptive. When the stakes are high, reviewers are particularly evasive in their judgements. Even if they are sincere (i.e., not cutting their suit according to someone else's cloth), the film industry, having mounted a massive advertising campaign, is going to make this particular film a major event. By the very fact of writing a review, which flows into an already mighty flood of publicity, the critic misleads the consumer.

An example is *Aviator*, to which, to their eternal merit, the academicians did not award a dozen Oscars (although it was nominated), but which is, in my opinion a weak, boring film in many respects. Or Tarantino's *Kill Bill* diology, about which the critics were very forbearing in their reviews. Nobody so much as hinted they might be thinking the Tarantino brand was overrated. In expressing here my purely personal opinions, I make not the slightest claim to be professing absolute truth, beyond suggesting that these are demonstrations of navigational failure.

The critics not only camouflage failure, if only because the fact of a review is more important than what it says, they also obstruct works deserving of attention.

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<sup>106</sup>Jules J. Wanderer, "In Defense of Popular Taste: Film Ratings Among Professionals and Lay Audiences", *American Journal of Sociology*, vol. 76, September 1978, pp. 262–272.

<sup>107</sup>Particularly in July, when the release of good films is held back because of the holiday period.

<sup>108</sup>Film information: budget \$10 million, overall takings throughout the world \$13,904,766. Russian cinema-goers were evidently disappointed not to find the film living up to its title and did not rate it highly. The average monetary rating by participants in the experiment was 1.88 roubles [37 pence]. See the Diagram in Appendix 4.

Works of high quality but with no pretensions to stylistic innovation are particularly vulnerable. The critics have already seen and dissected everything many times before. They remember in the minutest detail who pioneered what, when, and in which film, and long for something new, which for them and for the creative artists, becomes ever more unattainable. Conscious of the dangers of carping, the experts, in order to maintain a balance, note something good. The end result is rather like a horoscope from which everyone can read whatever they want. One has to sympathise with the critics: it is impossible to absorb so much material and survive without armour plating. Wine-tasters do not drink much wine, but when they do in the course of duty, they rinse their mouths with pure water to restore their palate.<sup>109</sup> Where are film critics to find their pure water? Perhaps they read Shakespeare.

Vladimir Sorokin has accused critics of being turned off by life, worn out by literature. He is not entirely fair, but his philippic deserves to be repeated here: ‘Some sensitive writers have a vague belief that critics have a third eye which in the text of a novel boldly espies something hidden from ordinary mortals. The writers’ tetchiness leads philologists and critics themselves to believe that this third eye really exist, and that with it they can see things hidden from the writer and the uninitiated reader. [...] I merely wish to ask whether philologists do in fact have a third eye. My own view is that they do not. Indeed, I do not believe they have even the two eyes possessed by the ordinary reader who is not burdened with the status of a professional devotee of the written word. The trouble with philologists is simply that they evaluate books with the aid of dozens and hundreds of other books they have read. They have no other means of assessing literature. Accordingly, I suggest that philologists have in fact only one eye, entirely literary and capable only of comparing texts. The second eye, which sees real life, has for the majority of literary specialists been gradually dulled by a glaucous textual membrane, its thickness directly proportional to the number of books they have read. Philologists’ heads are crammed full of books. They see life only through texts, and are proud of the fact. Having gorged themselves on literature, and been poisoned by it, they see real life as a continuation of literary texts, as an appendage to them.’<sup>110</sup>

Perhaps it is unfair to deny all literary experts the ability to see real life, but it is a fact that critics are obliged to put on spectacles with the same diopetre as their readers. Wearing somebody else’s glasses is, as we know, bad for your eyesight. For this to be avoided, they need to possess remarkable common sense and knowledge of life, since there is no other way for them to know what people are interested in. The important thing, however, is for them not to forget now and again to take their glasses off.

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<sup>109</sup> An impressive number of wines are tasted during such sessions: more than 100 if our information is correct. Wine-tasters appear to have an easier task than critics, since they are not expected to drink the whole bottle. There are persistent rumours that critics themselves sometimes only take a quick gulp.

<sup>110</sup> Vladimir Sorokin, “Mea culpa?”, *Ex Libris NG*, on-line, 14 April 2005. Cited 22 April 2006, available from URL: [http://exlibris.ng.ru/tendenc/2005-04-14/5\\_culpa.html](http://exlibris.ng.ru/tendenc/2005-04-14/5_culpa.html).

### 2.6.4.3 Collective Professional Assessment

Authoritative institutions in which decisions are arrived at by committees—competitions, festivals, prizes and the like—issue not critical reviews but rankings and hierarchies. How effectively do they do this? Glejser and Heyndels have sought the answer in the Belgian archives of the Queen Elisabeth Music Competition, a paragon of impartiality from the point of view of lack of prejudice and the neutralising of extraneous circumstances.<sup>111</sup> After studying the results of the competition for the piano and 'cello for the years 1956 to 1999, the researchers conclude that the final ranking of the performers is far from objective. They find that musicians who happened to perform later, both later in the day and later in the competition, had an overall advantage and obtained more favourable assessments. Performers of new compositions were viewed more favourably by the jury than those who chose well-known pieces. They thereby empirically confirm the banal but pertinent truth that experts too are human. They get tired and may, as a result, overlook slips in execution, or scrutinise technical virtuosity less closely as a result of lapses of attention. This may be the explanation of their greater leniency towards later performers, although no doubt fatigue also increases irritability. Doubtless, too, experts get tired of listening to the same thing over and over again.

The patterns Glejser and Heyndels detect are perhaps not the most worrying aspect of collaborative selection. More troublesome is extraneous influence which jeopardises the judges' independence and impartiality. It is clear that, to be effective, judges must be incorruptible and immune to pressure from the artistic community but, as Douglass C. North, a specialist in institutional economics who won the Nobel Prize in 1993, assures us, institutions are not atoms, or to put it more bluntly, not without their own agendas. The judges' decisions have a direct impact on the success or failure of business, political or artistic projects, so there is no reason to doubt that ulterior motives are in play. Even by selecting a shortlist the assessors are advertising those selected, much as a critic does merely by writing a review. The judges are similarly operating like an agent within the artistic community.

It is, in any case, impossible to be completely objective: even members of a panel of judges are human and likely to be swayed, not so much by mercenary, as by ordinary social motives. The art expert is not only a member of a professional community but also the inhabitant of a small world full of mutual obligations and

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<sup>111</sup>Herbert Glejser and Bruno Heyndels, "Efficiency and Inefficiency in the Ranking in Competitions: the Case of the Queen Elisabeth Music Contest", *Journal of Cultural Economics*, vol. 25 (2), 2001, pp. 109–129. This competition is considered one of the most difficult and prestigious in the world. A panel of some 15 leading international experts is the mainstay of its reputation. The competition was first held in 1951 to select the best twelve musicians in various fields. It consists of three rounds and the registration fee is modest (€55 in 1999). The order in which participants perform is determined by drawing lots and remains the same throughout the heats. The judges assess the performances on a scale of 50 to 100, and the points are totalled to determine each candidate's final rating. The judges are not allowed to confer about their assessments. If any of them award points which deviate by more than 20 percent from the average they are ignored. Participants have to present an extremely difficult programme. They spend about five weeks in Brussels and must also prepare a previously unpublished composition for performance in a single week.

politics. He has opponents it is best not to anger over minor matters, he has friends it would be strange for him to upset, he has the proteges of friends and other interests to consider. These are people he has known for many years and accordingly, if somebody is not quite up to the mark, it may be better to say nothing, and even to give a helping hand along the way. In a court of law nobody is expected to testify against their own family, and by analogy that should not be expected of an expert. It is worth noting that statistically the majority of reviews are not negative. It is impossible to discount the circumstances of the critic's personal life, because they are woven into the cultural fabric. Bonding within the professional community inevitably leads to mutually favourable reviews. Whether that is a good or a bad thing, it is inevitable because the strong links within a close circle outweigh the weak and depersonalised links with a more remote circle. If the interests of the consumer are pushed to one side, is that not only to be expected?

In any voting procedure there are loopholes which make possible the advancing of particular interests. From the perspective of institutional economics critics are economic players pursuing their own aims. What mitigates the uncharitableness of this view is its universality: economics regards everybody as agents acting to their own advantage and giving no thought to the welfare of society. Accordingly, if we want to believe that markets are progressive, rules are needed to ensure they work to the benefit of all. In cases where this proves impossible we are faced with market failure. It is important to be able to tell the difference between a situation where good rules have not yet been introduced and one where to do so is fundamentally impossible.

No matter how self-interested the experts may be, it is in their own interests to strike a balance between financial gain and reputation, since future earnings are conditional upon retaining their reputation. It does, of course, happen that a reputation is bought, and great efforts are then made to keep the deal secret. Institutions often are created with the intention that they should subsequently regulate the distribution of goods and earn income (so-called revenue-orientated behaviour). Thus, sports referees have been known to raise all manner of objections and to lower the score of challengers who threaten their favourites. Similar examples can be found not only in the arts but throughout the leisure and entertainment markets. Lavishly funded forms of sport appear to be particularly susceptible: European football has been shaken by investigations into alleged match-fixing.

In early 2005 Robert Hoyzer was arrested for taking money to deliver the result required by bookmakers in matches he was refereeing.<sup>112</sup> He let this slip to two colleagues, who informed on him to the German Football Union. Hoyzer confessed his guilt and admitted that on 21 August he had unfairly refereed a match in which Hamburg SV had been leading SC Paderborn 2:0, only to lose unexpectedly 2:4. In the middle of the match Hamburg had a player sent off, and two penalties were awarded against them. Under questioning, Hoyzer admitted seventeen matches had

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<sup>112</sup>A. Zhuk, "Hamburg zaplatiat €2 milliona za proigrannyi match" ["Hamburg to Be Paid 2 Million Euros for a Match It Lost"], *Kommersant*, 14 February 2005. Available from URL: <http://www.kommersant.ru/doc.html?DocID=547102&IssueId=23326>.

been fixed in the first and second German leagues, and implicated other referees, football players and officials. More than twenty individuals found themselves under suspicion.

This example can be generalised beyond German football,<sup>113</sup> and indeed beyond sport in general. Any judge will be aware of economic pressures and may succumb to human weakness even if he does not actually do anything provably illegal. There was a very public scandal over less than objective refereeing in the Olympic Games in Athens, where politicians were openly demanding favourable results. Even the most technically regulated sport where everything would appear to depend on the measurement of fractions of a second or centimetre, there is still room for unfairness. Penalties for technical infringements of the regulations can be imposed or not at the discretion of judges. This applies particularly to individual performance sports, and especially to artistic sports like gymnastics and figure-skating. Here the favouritism is built in when the criteria are decided, and an important element of the competition takes place not in front of the public but among the judges for the right to award points in accordance with their own criteria. Much scope for arbitrariness comes when the weighting of points for artistic merit, novelty and complexity is negotiated. If the judges confine themselves strictly to technique and do not encourage innovation, many sports will cease to develop and become uninteresting. If complexity is given too much weight there are other dangers. One of the competitors may have learnt an exceptionally complex routine and simply be unstoppable, even if by other criteria and on overall impression he is not the best. Lobbying for exceptional weight to be given to complexity can create an artificial advantage.

Such plotting appears to go on in artistic gymnastics. Russian sportswomen focus their efforts on unprecedentedly complex pirouettes, and the principal coach lobbies for this to carry premium points. The criteria of assessment, like any major element in the rules, determine the nature of the sport. Many amateur boxing enthusiasts felt the sport was ruined when a mechanical totting up of the number of punches landed became the main determinant of the result. This criterion has something in common with the role of box-office revenue in culture: there can be a lot of contact without there anything of interest to the spectator.

Examples of biased refereeing or over-emphasised criteria, while dangerous for sport, are less than catastrophic. People play sports and will continue to do so. Fans turn up to watch them, and are not about to stop. Some degree of unfairness in the refereeing is accepted as inevitable, and even adds spice to the contest. The rot can be kept under control. Sport accepts that obvious cases of corruption are discovered and dealt with, both by officials and by the fans. Luckily sport is very public. If the officials did not react, popular anger would sweep away the organisers of a dishonest competition and, if need be, the entire federation governing the sport and all its business interests. It is clear enough why, when Hamburg demanded a revision of the result of its match with Paderborn, the Bundesliga refused, not wishing to

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<sup>113</sup>In summer 2006 Italian football was shaken by major match-fixing scandals, resulting in a criminal investigation.



create a dangerous precedent. Nevertheless, in order to bring the scandal to a close, it awarded them compensation of €2 million.

The more blurred the criteria of judgement, the more difficult it is to detect corruption and keep it within bounds. Biased judging by an art critic on the panel of a prize is not as easily identifiable as in sport, but devalues the competition nonetheless. Since by definition there are no clear rules in art, nobody can be caught red-handed and disqualified like a football referee who awards an unfair penalty.

But if some degree of corruption is probably unavoidable, for the time being it is not out of hand in the cultural community. Even so, the judges have the same questions to answer as the individual critic writing his review. What are the criteria by which they are judging, who are their judgements addressed to? If the individual critic has to bear the overall interests of his readership in mind, the same problem is even more acute for a panel of judges. Assessment by committee, the very concept of a balanced representation of group interests, creates the conditions for cautious, middle-of-the-road decisions. An international panel may have members following conflicting state policies or acting as protagonists of conflicting artistic schools, leading to contradictory criteria; finally, the members may be of differing ages and have quite a different understanding of the spirit of the times. Unless a dominant coalition is present in the way the panel of judges is initially set up, it is likely that only very average, compromise works will have any chance of winning. Radical, uneven, edgy works will not get a look in. It is difficult to obtain a balanced panel of judges.

For all their faults, competitions do assist consumer navigation. Film festival prizes are a reasonably reliable signal that a film will be worth watching, even if the judges are sometimes unduly impressed by advertising and marketing budgets; the US Academy of Motion Picture Arts and Sciences is considered to be guilty of this when awarding the Oscars. As Ginsburgh and Weyers have established, of 174 films which won or were nominated for awards between 1950 and 1970, only 47 appear in a list of 122 films subsequently regarded as the best of all time.<sup>114</sup> This

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<sup>114</sup>Quality assessments are taken from lists of the 'best films of all time': two international and three of the best-known national lists of Great Britain, the USA and Germany:

- Cinémathèque Municipale du Luxembourg (1995)—a list of 100 films based on the judgement of 100 key figures of world cinema;
- Fédération International des Archives du Film (FIAF, 1995): a list of favourite films drawn up by 37 film archives in 29 countries. They were asked to choose as many films as they liked which, in their opinion, were the best films in the world.

The three national lists were:

- Barry Norman, *100 Best Films of the Century*, London: Chapman's, 1992;
- *Movie Guide: Critics Picks: 100 Best Movies of All Time*, 1997. One hundred films chosen by American cinema critics;
- Th. Koelsner, ed., *Filmklassiker*, vol. 1–4, P. Reclam jun., Stuttgart, 1995. Volumes 2 and 3 have been used during the present research. Films selected by a group of German experts.

Consumer opinion was gauged from data on box-office takings and television broadcasts. See Victor Ginsburgh and Sheila Weyers, "On the Perceived Quality of Movies", *Journal of Cultural Economics*, vol. 23 (4), 1999, pp. 269–283.



could be due to the fact that recent films squeeze out older ones, but that would not explain why 75 of the 122 received no awards or were not even nominated. On this basis Ginsburgh and Weyers damningly conclude that the judges in Cannes and Hollywood are 'shortsighted and unselective'.<sup>115</sup> The reproach is of course made from the standpoint of high art and may not reflect consumer perceptions.

Whatever the failings of the judges of films, navigation in this segment is relatively satisfactory because the number of films aspiring to aesthetic excellence and eligible for such competitions is relatively few, and they are all large-scale projects. The ability of the industry to produce films and the capacity of experts to assess them are commensurable. It is not impossible for those working in films to select a few dozen films out of a couple of hundred more or less significant works. The remaining output of almost 6,000 films aim not to shine in competitions but only to part the cinema-goer from his cash. Endorsement by a festival is economically worth while because the output of suitable cinematographic products and their market value are sufficient to cover the costs of assessment. If, however, there were a hundred times more films and they brought in considerably less money, there would not be the resources for expensive judging and its quality would fall. We see this in award ceremonies in the music and publishing industries, which are less effective and attract less public attention. Nevertheless, the Grammy Awards ceremony is watched by billions of television viewers,<sup>116</sup> and the MTV Europe Music Awards are sufficiently well known<sup>117</sup> to be called the 'music Oscars', albeit with the addition of a caustic 'for housewives'.

Without wishing to belittle the role of critics, we must repeat that it is beyond their analytical capacity to cope with the sheer volume of present-day cultural production. To paraphrase what Baumol said about the cost disease<sup>118</sup> in the performance segment, a similar diagnosis can be made of the mass-market culture industries. They have succumbed to the disease of the increasing cost of manual attestation of art. New releases come with increasing rapidity, while ranking them continues in the old way. This results in a straightforward overloading of the critics and a clogging of filters. In an attempt to deal with the situation, critical institutions proliferate and redouble their efforts,<sup>119</sup> but this in turn creates new problems:

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<sup>115</sup>In the opinion of the authors, the quality assessments made during the Cannes Festival and, to a lesser degree, by the US Academy, are 'short-lasting'. Ginsburgh and Weyers, "On the Perceived Quality of Movies".

<sup>116</sup>The 'Grammies' is an annual music prize awarded by the American Recording Academy, one of the most prestigious in the world. It was founded in Los Angeles in 1957.

<sup>117</sup>MTV is a television station created in 1981 for round-the-clock broadcasting of music videos. It destroyed the monopoly of radio in the music industry. The MTV Europe Music Awards were held for the first time in 1994. For a number of nominations the awards are made by a European 'MTV Academy', a panel consisting of approximately 1,000 people which includes major figures in the European music industry and MTV viewers from the whole of Europe. For other nominations the winners are chosen only by viewers.

<sup>118</sup>A term introduced by William Baumol in Baumol and Bowen, *Performing Arts: the Economic Dilemma*.

<sup>119</sup>The judges of the British Booker Prize recently asked the organisers' permission not to read all the texts in full because of the difficulty of assimilating such quantities of text. This has led

how are critics to maintain the quality of their judgements, how are consumers to find critics suited to their tastes, and how are they to know what may lie behind the pronouncements of a panel of judges? Proliferation of institutions is no solution, and it is in any case a simple matter to render their efforts at filtration ineffective, for example by shamelessly manufacturing awards for one's product from fictitious institutions or by using titles misleadingly. A typical bluff is to print on a video-cassette 'New Zealand' (in small print) 'Oscar' (in large print),<sup>120</sup> to obfuscate the distinction between nominees and winners, or to seduce the would-be buyer with the number of awards without mentioning the types of nomination. In other words, trying to deceive the customer by brand mimicry.

The critics, of course, deny there is any such cost disease. For them being overburdened is just part of the territory, something to which they have to adapt. The result, however, is that much that is of value but which the experts have had no time to identify is thrown out with the bathwater and pours down on the consumer's head along with everything else. The latter seems to accept this situation with the kind of stoical resignation appropriate to a natural phenomenon.

#### 2.6.4.4 Ratings

The third form of attestation relies on the rating efforts of consumers themselves and includes charts of sales statistics, constantly renewed lists of the most popular media products (the Ten Most Popular Albums, the Five Most Popular Software Programs, the 100 Best Discs, and so on). The fundamental difference is that here the information is being provided not by professionals but by the public, and is for the most part gathered automatically. The ratings are usually sales based and, accordingly, tell us more about the fact of consumption than about the rating by consumers of their purchase. However doubtful the navigational utility of the data, consumers actively make use of them. Despite their obvious disadvantages,<sup>121</sup> such chart ratings are accessible and provide a quick-fire way of organising one's leisure. The mechanism is highly productive and there is no danger here of a cost disease.

Unfortunately, the simplicity and democratic nature of such ratings is deceptive. Their main users are not the public, but the professional players.<sup>122</sup> Performers and

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to a tendency to limit the long list of submissions for the prize. In the "Booker-Open Russia" competition in 2004, 39 works were admitted to the long list, but in 2005 only 22.

<sup>120</sup>The 'New Zealand Oscar' is the name given to a prize awarded by the Academy of Film and Television Arts of New Zealand. The procedure for the award copies the American version, hence the title. The prize is awarded to approximately one of fifteen nominated feature films, and one of fourteen nominated short films. There are also about 20 nominations for television. In 2003–2004 the prize was not awarded, after which the ceremony was revived under the title of the New Zealand Screen Awards. In 2006 the name of the main sponsor was added and the prize became the Air New Zealand Screen Awards.

<sup>121</sup>One of the alternative ways of establishing popularity is through polling, but here representativeness is often not great. A random selection of the more responsive consumers gets surveyed.

<sup>122</sup>See, for example, Eric A. Strobl and Clive Tucker, "The Dynamics of Chart Success in the U.K.," *Journal of Cultural Economics*, vol. 24 (2), 2000, pp. 113–134.

sound recording studios are desperate to get into the hit parade, because this has a direct bearing on their income.<sup>123</sup> Those who use the charts are much more interested in what is right at the top, and manufacturers compete fiercely for the top 20–30 slots. Celebrities are anxious not only about their current position, but also about moves from week to week. Moving up or down one point may make a greater impression than the absolute position in the chart itself. This produces an interest in discreet manipulation of the ratings. Suppose that albums in adjacent slots have a slight divergence in their sales. The fact that one of them has moved up produces a bandwagon effect on purchases,<sup>124</sup> which increase at disproportionate speed. This is why it is important to go in close to the top, and in order to achieve this all manner of means can be employed, not excluding buying up your own recording. In just the same way, it is advantageous for writers to exaggerate demand for their works in the Amazon portal. There is no proof that writers are guilty of this, but we certainly do know that ratings are systematically inflated.

A group of companies headed by the retailer, Lane's Gifts & Collectibles, brought a lawsuit against a number of Internet companies in February 2005, including Google and Yahoo, accusing them of knowingly overcharging some of their advertisers and of conspiring with each other to continue to do so.<sup>125</sup> The defendants were accused of ratcheting up the number of clicks on advertising links.<sup>126</sup> Advertisers were paying around fifty cents for each click and some of their competitors employed staff using special programs to increase the number of clicks and increase their competitor's advertising bill. The Internet companies were accused of knowing of the problem but doing nothing about it, and pocketing the revenue from the false clicks. Since sales of advertising are the main source of the defendants' revenue, and even more importantly, fundamental to the stock market's assessment of the capital value of the search engines in the event of their being sold, it would perhaps not have been surprising if the Internet companies were reluctant to put a stop to this mechanised clicking. To do so would mean writing off a large proportion of sales enquiries and oblige them to return money overpaid by the advertisers. This, however, is just what they were obliged to do. A British company, Speedy Registrations, which sells personalised number plates to motorists, became concerned when the number of clicks on its banners in the Overture search engine trebled with no concomitant increase in sales. They managed to prove this was the result of fraud and had \$5,000 refunded. In general, however, the search engine companies refuse to provide information about abuse, claiming the need to preserve confidentiality.

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<sup>123</sup>Performers are interested in the charts not least because their contracts provide for a royalty on the volume of sales.

<sup>124</sup>The bandwagon effect is widely referred to in the economic theory of stardom. See Moshe Adler, "Stardom and Talent", *The American Economic Review*, vol. 75, No. 1, 1985, pp. 208–212.

<sup>125</sup>Kevin J. Delaney, "Internet Firms Face Legal Test on Advertising Fees", *The Wall Street Journal*, 5 April 2005.

<sup>126</sup>In addition to Google and Yahoo, the writ also names Time Warner and its America Online unit, Walt Disney Co's online unit, and the search engines AskJeeves, Lycos, FindWhat.com and LookSmart.

The research company Alchemist Media calculates that false clicks could account for as much as 20 percent of clicks on search ads. To believe in the reality of these scams you don't need to catch anybody red-handed. Since the motive is plainly there, we may be sure that opportunities will always be sought to implement them. Insiders often admit in private that machinations occur wherever they are possible and economically advantageous. Is there really no similarity between feting critics at a buffet supper and employing people to click a mouse?

In order to prevent malpractice, supervisory bodies are created, like The Official UK Charts Company in Britain.<sup>127</sup> This serves the interests of the music industry, as they are understood, needless to say, by those at the helm. A code of practice has been established with the aim of preventing a particular single or album from receiving an unfair advantage. A product of non-standard format will not be allowed into the official charts. The most popular and typical music chart is the 'Hot 100', published in the journal *Billboard*.<sup>128</sup> Data is automatically received from shops selling recordings,<sup>129</sup> and published each week by the magazine. It takes account of regional variations, since what is popular in New York may be less in demand in the mid-West. Curiously, the technique by which chart position is established is kept secret.

In 1958 *Billboard* brought together (using a secret technique) the data from retail sales and radio broadcasts, and the Hot 100 became the top weekly chart for the songs of America.<sup>130</sup> It would be difficult to overstate its influence within the music

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<sup>127</sup>The Official UK Charts Company is an institution formed by the British Phonographic Industry and Entertainment Retailers Association which commissions, markets, distributes and manages the UK's official music and video charts in order to ensure objectivity and accurate rating of popularity. Sales data is received from 5,600 retailers, including all the major commercial chains and 600 independent shops, comprising 99 percent of the singles market, 95 percent of the albums market, and 80 percent of the video market. The rules regulate the format (the number of tracks in a single or album, how long they last, and how they are packaged). Information from the site of The Official UK Charts Company.

<sup>128</sup>*Billboard* is today the world's most authoritative professional journal covering the music and entertainment industry. It was founded in 1896 in Ohio, USA and initially specialised in information about agricultural fairs, shows etc. With time the profile of the journal changed and it started writing about the music business, video- and showbusiness. During the first half of the twentieth century *Billboard* published numerous charts and lists, such as retail bestsellers, the most popular songs on radio, the highest selling sheet music, the most frequently played songs on jukeboxes. In addition to hit parades of different music styles the magazine regularly prints a Hot Ten.

<sup>129</sup>In the US and Canadian markets music ranking is done by Nielsen SoundScan. Its ratings reflect sales of compact discs in 14,000 trade outlets, including online shops. Any vendor can put a device on his cash register which will read the barcodes of a recording and register its sale. In 2003 the Nielsen SoundScan system began monitoring Internet purchases of digital music. The company's information is used by many popular publications, radio stations and television stations (*Billboard*, and the MTV and VH-1 channels), and also by sound recording firms.

In Great Britain this business is the province of The Official UK Charts Company. The majority of UK hit parades are compiled from its researches, including the 'Official British Chart' (the Top 40 on BBC Radio).

<sup>130</sup>Shortly after that, *Billboard* stopped compiling many other charts and concentrated on the Hot 100. In 1984 the magazine again began publishing separate charts for sales and radio broadcasts,

industry and American popular culture. In particular, the position of a song in the Top 40 of those 100 is crucially important for performers' reputations, fees and overall place in the sun.

The press delight in revealing the marketing tactics music labels use for boosting their songs' chart position, and the stories make good reading for music lovers. How useful the charts are for consumer navigation, which is the focus of our interest, has been little researched. Indeed, we have been unable to unearth any research articles on the subject. Nobody has ever directly asked consumers whether they felt choices they made on the basis of chart position had lived up to their official rating. The facts suggest that a high chart position stimulates sales, but how effectively it signals quality remains to be seen. Experienced consumers tend to view chart position rather wryly, seeing success as a sufficient warning of very average quality. For a beginner it would be better to judge singles and albums on the basis of how long they have stayed in the charts. This information can be paid for, which is expensive for an individual consumer, or arrived at after lengthy research. Even economists evidently find the task too time-consuming and confine themselves to a restricted selection of data.<sup>131</sup>

One further source of rating is through professional media metrics,<sup>132</sup> a tool for regulating relations between the press and marketing services. It can only be of indirect assistance to consumer navigation, and there are many problems associated with it: the measures of perceived quality are indirect, the reliability of the information open to question, and the data averaged. The same problems arise with morality ratings issued by the Motion Picture Association of America.<sup>133</sup>

Ratings of this kind relate to content, but give no indication of quality. They are intended primarily for parents as an indication of which films are suitable for children; and also to shield those of a sensitive disposition from indecency. They were born on a wave of public protest against the showing of indecent scenes to minors. The major companies created the Hays Code and the associated Hays Office, a regulatory agency which functioned from 1930 until 1967.<sup>134</sup> Among its duties was rigorous restriction in American films of bad language, violence, sex, material

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but neither these nor dozens of other charts published by *Billboard* were as comprehensive or influential within the music industry as the Hot 100.

<sup>131</sup>Eric A. Strobl and Clive Tucker, "The Dynamics of Chart Success in the U.K."; Eric T. Bradlow and Peter S. Fader, "A Bayesian Lifetime Model for the 'Hot 100' Billboard Songs", *Journal of the American Statistical Association*, vol. 96, No. 454, 2001, pp. 368–381.

<sup>132</sup>Media metrics is research for the purpose of establishing the size and demographic composition of an audience in the mass media. See I. Fomicheva, *Industriia reitingov. Vvedenie v mediametriiu* [*The Ratings Industry: Introduction to Media Metrics*], Moscow: Aspekt Press, 2004, p. 138. Here the rating is the size of the actual audience of a particular medium expressed as a percentage of the total population or of the medium's potential audience or readership.

<sup>133</sup>Jeremy Hubble, "The Effectiveness of Movie Ratings", Working Paper, on-line, 7 May 1997. Cited 14 July 2003, available from URL: <http://www.geocities.com/Athens/6378/pols306.html>.

<sup>134</sup>Named after its director, Will H. Hays.

likely to offend religious sensitivities, incitement of ethnic hatred, and depiction of drug abuse.<sup>135</sup>

Initially the rating consisted of four categories: G, M, R, and X (M was subsequently replaced by PG). The first two categories allowed universal access, M merely warning parents that the film might be considered unsuitable for the youngest children. The third category, R, allowed children to watch the film if accompanied by an adult, and the last, X, was considered unsuitable for any minors.<sup>136</sup> With time the X category came to be equated with pornography and was banned in many states. Films rated G were considered childish and produced in limited numbers; the majority of films released were in the categories of PG and R. As a result the initial 4-category system was, with rare exceptions, reduced to a 2-category system. In an attempt to broaden the scope of the system a new PG-13 rating was introduced in 1984, halfway between PG and R. Later the NC-17 category was introduced as an alternative to X with the intention that this should designate art films while pornographic films would continue to be designated X. However, the producers of pornographic films soon began to submit their works for classification just as art-house films did. In this way NC-17 effectively replaced the X rating. At the present time more pictures with the R rating are produced than any other type, and the year's most successful film is almost always in the PG-13 category. Far from being a neutral classifier, PG-13 now influences the kind of films made. In 1996 films with a PG-13 rating comprised 18.9 percent of all the films made, but accounted for 34.1 percent of the total revenue from screenings. Subsequently PG-13 was transferred to the category of films for family viewing, enabling the film companies to introduce more spice, sex and violence in their film without losing competitiveness. Producers decide in advance the category they need to aim for and make the film to fit the classification framework. Quite recently the task of preserving morality among the viewing public was presented with an effective technical solution in the form of a special program which enables the viewer of films on DVD to make cuts in them himself to make them suitable for family viewing.

The significance of film classification for the economist is enormous, and unambiguously positive. It has provided a firm foundation for business in the form of feedback enabling supply to be coordinated with demand, without creating negative external factors for entrepreneurs. For culture its value is less certain. It too has a vital need of feedback, but requires something more meaningful than these classifications provide. By creating an illusion of reflecting consumer tastes they tend to deflect culture from its proper path rather than show it where it should be headed. They are of minimal assistance to cultural navigation, and serve more like buoys marking out the channel of adverse selection.

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<sup>135</sup>Upon becoming Chairman of the Motion Picture Association of America, Jack Valenti abolished the Hays Code and introduced a new system of classifying films after they had been made.

<sup>136</sup>J. Valenti, *The Voluntary Movie Rating System*, MPAA, December 1996.

## 2.7 A Survey of Recommender Systems<sup>137</sup>

At its most general, recommendation is a prediction of a person's reaction before he himself has sampled an item. The prediction is based on analysis of previous preferences of the buyer or any other information about him.<sup>138</sup> The service consists of selecting a product for a particular consumer from the great abundance of books, CDs, films, restaurants and so on which has the highest anticipated utility.<sup>139</sup>

For each customer the recommender system<sup>140</sup> builds a personal profile taking account of his preferences and also, if necessary, of his age, sex, income, marital status and so on. In parallel, goods are classified according to definite rules. For example, in a recommender service for films each movie may be represented by its title, genre, director, year of release, and principal actors. Initially consumer ratings of goods which a person has sampled before joining the system are entered in the database. In the MovieLens<sup>141</sup> system, for example, users start by awarding points to a particular number of films they already know. The systems are capable of issuing recommendations either in the form of a list of goods most suitable for the consumer, or of a list of consumers likely to prefer a particular good. As already emphasised in Chap. 1, this distinction proves crucial in practice. Recommendations can be generated using three methods:

1. Content: goods are recommended similar to those which a customer has chosen previously;
2. Collaborative filtering: goods for recommendation to the consumer are identified from assessments already given by users with similar tastes;
3. A hybrid method combining elements of both of the above.

There are also collaborative systems (briefly mentioned below), and systems of social navigation which are not recommender systems and are not considered here. In these, users' preferences are identified on the basis of direct and indirect data: In-

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<sup>137</sup>This section is partly based on materials from the survey article by Gediminas Adomavicius and Alexander Tuzhilin, "Towards the Next Generation of Recommender Systems: A Survey of the State of the Art and Possible Extensions", *IEEE Transactions on Knowledge and Data Engineering*, vol. 17, No. 6, June 2005.

<sup>138</sup>From the mid-1990s recommender systems became an independent topic of research, based on advances in cognitive science, experience gained from information retrieval systems, prediction theory, etc.

<sup>139</sup>This can be noted in the following manner:

$$\forall c \in C, \quad s'_c = \arg \max_{s \in S} u(c, s). \quad (1)$$

Where  $C$  is the number of users (up to many millions),  $S$  is the products offered (also millions of items),  $u$  is the utility function describing the utility of object  $S$  for users  $c$ .

<sup>140</sup>For further information on recommender systems see Appendix 1, Sect. A1.11.

<sup>141</sup>See Appendix 1, Sect. A1.11.8.



ternet communications, history of use of the system, hyperlinks etc. They visualise how a person interacts with a computer and assist those surfing the Web.<sup>142</sup>

### 2.7.1 Content Methods of Generating Recommendations

In content-based recommender systems the utility of the item is deduced from the consumer's rating of similar products. For example, in order to advise a user on films, the content system seeks similarities with other movies to which he has already given a high rating (which have the same actors, directors, genre). Such recommendations follow the principle of finding things for the user resembling those he has liked in the past. Content recommender system are based on the methods of information retrieval,<sup>143</sup> comparison and filtering.<sup>144</sup> This approach is most often used on texts: documents, websites, blogs etc. The preference profile is built up from information received from the consumer either directly by questionnaire or indirectly. The content is usually described using keywords.<sup>145</sup> The profile indi-

<sup>142</sup>Loren Terveen and Will Hill, "Beyond Recommender Systems: Helping People Help Each Other", in John M. Carroll, ed., *HCI In the New Millennium*, Addison-Wesley, 1989.

<sup>143</sup>Ricardo Baeza-Yates and Berthier Ribeiro-Neto, *Modern Information Retrieval*, Addison-Wesley, 1999; Gerald Salton, *Automatic Text Processing*, Addison-Wesley, 1989.

<sup>144</sup>Nicholas J. Belkin and W. Bruce Croft, "Information Filtering and Information Retrieval", *Communications of the ACM*, vol. 35, No. 12, 1992, pp. 29–37.

<sup>145</sup>For example, the Fab system, which specialises in recommendations of Web pages, presents their content in the form of the 100 most important words. The Syskill & Webert system describes documents with the aid of the 128 most informative words. Various methods exist for determining the 'importance' and 'informativeness' of words. For example, the method of frequency/reverse frequency. Its essence is: let  $N$  equal a certain quantity of documents which may be recommended to users. In part of these documents ( $n_i$ ) a keyword ( $k_j$ ) is encountered. Moreover, let us suppose that  $f_{ij}$  is the number of times that keyword  $k_j$  is encountered in a certain specific document  $d_j$ . Then  $TF_{ij}$  is the frequency of use of the keyword  $k_j$  in document  $d_j$  defined as

$$TF_{i,j} = \frac{f_{i,j}}{\max_z f_{z,j}}, \quad (2)$$

where the maximum is calculated from the frequency  $f_{zj}$  of all the keywords  $k_z$  encountered in document  $d_j$ . However if the keywords are extensively present in many documents, the system is unable to select the required text correctly. Accordingly the measurement of inverse document frequency ( $IDF_i$ ) is often used together with measurement of term frequency ( $TF_{ij}$ ). Inverse document frequency for a keyword  $k_i$  is usually defined as:

$$IDF_i = \log \frac{N}{n_i}. \quad (3)$$

Then the weight of keyword  $k_i$  in document  $d_j$  is defined as:

$$w_{i,j} = TF_{i,j} \times IDF_i. \quad (4)$$

And the content of document  $d_j$  is defined as:

$$Content(d_j) = (w_{1j}, \dots, w_{kj}).$$



cating the consumer's preferences is created by identifying keywords in the content which the user has previously rated. The consumer's profile and the profile of the content may be represented as vectors, and the utility of content for the consumer is determined by the size of the angle between them.<sup>146</sup> In particular, a person interested in a specific topic will have articles recommended which contain many of the keywords in his user profile.

### 2.7.1.1 Drawbacks

There are several drawbacks to the content or search-based method. In the first place, machine analysis is not suitable for all items. Thus, it is made very difficult to work with multimedia attachments, graphics, audio and video materials, although rapid progress is being made in this area. Another problem of this method is that different objects with identical profiles cannot be told apart. For example, a content-based system is unable to distinguish between a good journal article and a bad one if their vocabulary is similar. This problem extends also to consumer profiles, so that recommendations based on the choices of supposedly similar users can be wide of the mark. Profiles may appear similar while the individuals behind them are quite different. Another obvious drawback is the restrictiveness of recommendations. There is no provision for recommending goods to the consumer which differ from those he already knows. He may have items insistently offered to him which are too similar to those he is already familiar with.

### 2.7.2 Collaborative Systems

Collaborative systems cannot generate recommendations. Their purpose is instead to facilitate the exchange of recommendations. The first recommender system in the world, Tapestry, devised by Xerox PARC, was of the collaborative type.<sup>147</sup> The weblogs popular today are a further example.

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Source: Adomavicius and Tuzhilin, "Towards the Next Generation of Recommender Systems".

<sup>146</sup>This can be noted as:

$$u(c, s) = \cos(\vec{w}_c, \vec{w}_s) = \frac{\vec{w}_c \cdot \vec{w}_s}{\|\vec{w}_c\|_2 \times \|\vec{w}_s\|_2}.$$

Other content-based methods exist, like the Bayesian classifier, machine learning, including decision tree clusters, and artificial neural networks.

<sup>147</sup>Tapestry was an electronic messaging system which allowed users to either rate messages 'good' or 'bad', or associate free text annotations with them. Messages could be retrieved based not only on their content, but also on the opinions of others. For example, one could retrieve documents rated highly by a particular person or persons, or could retrieve documents whose annotations contained particular keywords. Loren Terveen and Will Hill, "Beyond Recommender Systems".

The snag with collaborative systems is that they are effective only where a sufficient number of volunteers are prepared to generate information of value to their community.<sup>148</sup> In most cases the work has been unpaid, although commercial search services are about to make it a possible source of income.<sup>149</sup> So far the recommenders' motivation has been non-commercial: perhaps a wish to broaden their knowledge, to establish contact with other users, or to enjoy expert status. Often they expect no more than gratitude for an explanation, advice or a witty reaction.

### 2.7.3 Collaborative Methods of Generating Recommendations

Collaborative filtering systems are based on two principles and accordingly come in two varieties: memory-based and model-based.<sup>150</sup>

Memory-based algorithms produce ratings for a customer based on his earlier ratings<sup>151</sup> and the totality of ratings given to a good by other users. This is a typical scheme for an individual customer, a user-to-user scheme of collaborative filtering. In order for these suggestions to be accurate, two tasks must be resolved: high quality recommenders must be filtered; and their ratings must be summarised. Similarity of tastes between clients is established on the basis of the ratings they give the same goods.<sup>152</sup> This similarity can be identified either using the Pearson correlation

<sup>148</sup>The task of summarising reviews is examined, for example, in Minqing Hu and Bing Liu, "Mining and Summarizing Customer Review", *Proceedings of the 10th ACM SIGKDD*, 2004, pp. 168–177.

<sup>149</sup>The Google search engine announced its intention of paying freelance experts for assessing products.

<sup>150</sup>John S. Breese et al., "Empirical Analysis of Predictive Algorithms for Collaborative Filtering", *Proceedings of the Fourteenth Conference on Uncertainty in Artificial Intelligence*, July 1998; Daniel Billsus and Michael J. Pazzani, "Learning Collaborative Information Filters", *Proceedings of the International Conference on Machine Learning*, 1998.

<sup>151</sup>Atsuyoshi Nakamura and Naoki Abe, "Collaborative Filtering Using Weighted Majority Prediction Algorithms", *Proceedings of the Fifteenth International Conference on Machine Learning*, 1998; Joaquin Delgado and Naohiro Ishii, "Memory-Based Weighted-Majority Prediction for Recommender Systems", *Proceedings of ACM SIGIR'99, Workshop Recommender Systems: Algorithms and Evaluation*, 1999; Paul Resnick et al., "GroupLens: An Open Architecture for Collaborative Filtering of Netnews", *Proceedings of the 1994 Computer Supported Co-Operative Work Conference*, 1994; Upendra Shardanand and Pattie Maes, "Social Information Filtering: Algorithms for Automating 'Word Of Mouth'", *Proceedings of the Conference on Human Factors in Computing Systems*, 1995.

<sup>152</sup>In the linear similarity method, the customer and potential recommender are represented by two vectors in  $m$ -dimensional space, and the similarity between them is determined by the vector cosine angle;

$$\text{sim}(x, y) = \cos(\vec{x}, \vec{y}) = \frac{\vec{x} \cdot \vec{y}}{\|\vec{x}\|_2 \times \|\vec{y}\|_2} = \frac{\sum_{s \in S_{xy}} r_{x,s} r_{y,s}}{\sqrt{\sum_{s \in S_{xy}} r_{x,s}^2} \sqrt{\sum_{s \in S_{xy}} r_{y,s}^2}}, \quad (5)$$

where  $\vec{x} \cdot \vec{y}$  is the scalar product of the two vectors.

coefficient, or by the method of linear similarity. The simplest way of measuring similarity between users is by the average quadratic deviation.

In order to improve the system's operation, a number of modifications of the above methods are employed.<sup>153</sup> In particular, in order to overcome a shortage of ratings of a particular user and to select suitable recommenders for him 'default voting' is used. This is suitable where everybody is consuming the same item and rating it similarly. It has been empirically established that the accuracy of prediction increases if non-rated goods are allocated a hypothetical rating and this can be done by finding similarity not between users but between goods.<sup>154</sup>

Although the tastes of those in the recommender group selected by the program for a customer may be close, they will not be identical, and some means is necessary for generalising their rating. At its simplest, this is calculated as a straightforward average. Clearly, however, the closer the match in tastes between the customer and one of his recommenders, the more weight should be given to the rating of that person when generalising the group's opinion. Different users also interpret the scale of ratings differently, so if a particular recommender shows a marked overall positive or negative bias relative to the average, allowance can be made for this.

In addition to customer-to-customer systems, there is also model-based collaborative filtering.<sup>155</sup> In this scheme an index of similarity is used to group users into clusters. The purchases and ratings of the users from one such segment are used to generate recommendations. According to Greg Linden and his co-authors, cluster

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Let us assume for simplicity's sake that we have only three works (of literature or art) for the sampling of tastes. Each recommender can be schematically represented as a dot in a rectangular three-dimensional Cartesian coordinate system  $(x, y, z)$ , and its position will be entirely determined by assessment of the particular works. The customer's taste can also be represented by a point in accordance with his expressed preferences. If a vector is drawn from the origin of the co-ordinates to these two points, then the angle between them will represent the degree of proximity of the taste of the customer and recommender.

<sup>153</sup>Such as default voting, inverse user frequency, weighted majority prediction, etc.

<sup>154</sup>Badrul Sarwar et al., "Item-Based Collaborative Filtering Recommendation Algorithms", *Proceedings of the Tenth International WWW Conference*, 2001. In the opinion of these researchers, systems based on analysis of ratings given to items show better results than collaborative algorithms based on analysis of consumers. This view is shared by Mukund Deshpande and George Karypis, "Item-Based Top-N Recommendation Algorithms", *ACM Transactions on Information Systems*, vol. 22, No. 1, 2004, pp. 143–177.

<sup>155</sup>Daniel Billsus and Michael Pazzani, "Learning Collaborative Information Filters"; John S. Breese et al., "Empirical Analysis of Predictive Algorithms for Collaborative Filtering"; Lise Getoor and Mehran Sahami, "Using Probabilistic Relational Models for Collaborative Filtering", *Proceedings of WEBKDD'99*, 1999; Ken Goldberg et al., "Eigentaste: A Constant Time Collaborative Filtering Algorithm", *Journal Of Information Retrieval*, vol. 4, No. 2, July 2001, pp. 133–151; Thomas Hofmann, "Collaborative Filtering via Gaussian Probabilistic Latent Semantic Analysis", *Proceedings Of The Twenty-Sixth Annual International ACM SIGIR Conference*, 2003; Benjamin Marlin, "Modeling User Rating Profiles for Collaborative Filtering", *Proceedings of the Seventeenth Annual Conference on Neural Information Processing Systems (NIPS-2003)*, 2003; Dmitry Y. Pavlov et al., "A Maximum Entropy Approach to Collaborative Filtering in Dynamic, Sparse, High-Dimensional Domains", *Proceedings of the Sixteenth Annual Conference on Neural Information Processing Systems (NIPS-2002)*, 2002.

models scale up better (that is, they are better adapted to working with large data sets) relative to customer-to-customer collaborative filtering, because they compare the user with a relatively small number of segments rather than the entire customer base.<sup>156</sup> The complex and expensive generation of clusters is conducted off-line in order not to overload the system, but a result is that the quality of recommendations is lowered. The cluster model groups users into a segment, compares a specific user with this segment and gives all members of that segment general recommendations. Since the users grouped in the cluster are not identical people, the recommendations are not ideal. The quality can be raised by breaking users down into highly homogeneous segments, but there will then be so many of these that online analysis of the link between user and segment will be almost as expensive as finding similar customers using customer-to-customer collaborative filtering.<sup>157</sup>

Work on improving collaborative filtering is being carried out at top speed throughout the world. We know of attempts to implement a statistical scheme,<sup>158</sup> and also more complex probabilistic methods.<sup>159</sup> Combining the memory-based and model-based principles produces better results than either of them on their own can manage.

### 2.7.3.1 Snags and Drawbacks

Collaborative recommendations are better over a whole range of parameters than content-based ones. In particular, they can be effective even with products which do not belong to any category already rated by a particular user. Technology can even

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<sup>156</sup>Greg Linden et al., “Amazon.com Recommendations: Item-to-Item Collaborative Filtering”, *IEEE Internet Computing*, February 2003.

<sup>157</sup>Each item may be regarded as one of the nodes of a Bayesian network, and the position of the node corresponds to the hypothesised rating of the item. The problem here is that each user may be allocated to a separate cluster, although certain systems are capable of considering the user in several roles simultaneously. For example, in a system recommending books the user may be interested in one topic for work and quite a different one for leisure. The KF method is proposed, based on machine learning, for example, a system of artificial neural networks), along with methods for retrieving relevant attributes, e.g., algebraic models for minimising matrices while retaining representativeness). Some provisional assessments suggest that more accurate recommendations are produced using model-based rather than memory-based approaches. See, for example, Daniel Billsus and Michael Pazzani, “Learning Collaborative Information Filters”; and John S. Breese et al., “Empirical Analysis of Predictive Algorithms for Collaborative Filtering”.

<sup>158</sup>Lyle H. Ungar and Dean P. Foster, “Clustering Methods for Collaborative Filtering”, Technical Report WS-98-08, *Proceedings of the Workshop on Recommendation Systems*, Menlo Park, CA: AAAI Press, 1998.

<sup>159</sup>Specifically, there is a proposal to use Markov Chains for generating recommendations. G. Shani et al., “An MDP-Based Recommender System”, *Proceedings of the Eighteenth Conference on Uncertainty in Artificial Intelligence*, San Francisco: Morgan Kaufmann, 2002. There are also attempts to utilise latent semantic analysis and a group of methods based on generative semantics. It has been shown that collaborative filtering can be applied even where there is relatively little information about the user. Ravi Kumar et al., “Recommender Systems: A Probabilistic Analysis”, *Journal of Computer and Systems Sciences*, vol. 63, No. 1, 2001, pp. 42–61.

be used for expert analysis of experts.<sup>160</sup> If a critic is contributing professionally to a recommender service, it is important to know his area of expertise and how authoritative he is.

The main merit of collaborative filtering is that recommendations are personalised. Moreover, the service does not simply base itself on the routine acts of consumption of its participants, but prompts them to reflect on their actions. Those devising commercial recommender systems, for entirely understandable reasons, try not to burden the consumer and to reduce his need to think to a minimum, but there seems no doubt that thinking through his choices is beneficial for the buyer himself. Indeed, the actions of consumers of culture can cause interest communities to spring up, and this is a positive development,<sup>161</sup> providing that real, off-line, acquaintance of users with their 'taste' neighbours does not come into conflict with morality and the principle of not interfering in people's private lives.<sup>162</sup>

Collaborative services do, however, have limitations, including the problem of the new user. In order to provide him with accurate recommendations, the system needs firstly to elicit his preferences. This obstacle is surmounted by using the hybrid method, combining the strengths of the content-based and collaborative principles.<sup>163</sup> Techniques have recently appeared for building a consumer profile using automatic processing of texts (data-mining), analysis of the Net behaviour of the customer and so on. These make it possible to take account of the interests and preferences of users without burdening them with needless questioning, and thereby enhance both their personal profiles and the profiles of items. These new approaches resolve, at least partly, one other problem of recommender systems: their intrusiveness. Most of them require action on the part of the user. For precise targeting it is essential to have the ratings of a large number of previously sampled products. Attempts are being made to obtain this information indirectly:<sup>164</sup> for example, the length of time spent reading an article can be analysed. Indirectly obtained data is,

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<sup>160</sup>Mutual filtering can be used to form circles not only of admirers of a particular work but even of a particular critic.

<sup>161</sup>It may be that bringing together kindred spirits and forming communities of interest will prove to be the main value of collaborative technology, which will thereby radically change the world for the better.

<sup>162</sup>The ethics of facilitating the setting up of user groups of interest is analysed in particular by Loren Terveen and Will Hill on the example of the PHOAKS system. The main priority here is to adhere to the rule of non-interference in private life. Terveen and Hill, "Beyond Recommender Systems: Helping People Help Each Other", J. Carroll (ed.), *HCI in the New Millennium*. Addison Wesley, 2001.

<sup>163</sup>For further detail, see Al Mamanur Rashid et al., "Getting To Know You: Learning New User Preferences In Recommender Systems", *Proceedings of the International Conference on Intelligent User Interfaces*, 2002; Kai Yu et al., "Probabilistic Memory-Based Collaborative Filtering", *IEEE Transactions on Knowledge and Data Engineering*, vol. 16, No. 1, 2004, pp. 56–69.

<sup>164</sup>Alper K. Caglayan et al., "Learn Sesame: A Learning Agent Engine", *Applied Artificial Intelligence*, vol. 11, 1997, pp. 393–412; Joseph A. Konstan et al., "GroupLens: Applying Collaborative Filtering to Usenet News", *Communications of the ACM*, vol. 40, No. 3, 1997, pp. 77–87; Stuart E. Middleton et al., "Ontological User Profiling in Recommender Systems", *ACM Transactions on Information Systems*, vol. 22, No. 1, 2004, pp. 54–88; Douglas W. Oard and Jimnook Kim, "Im-

however, less exact and cannot completely replace direct ratings by the user. Accordingly, decreasing the intrusiveness of recommender systems while retaining a high degree of accuracy is a priority. MovieLens asks new users to provide their assessment of a couple of dozen films straight away.<sup>165</sup> The same difficulties arise with a new item: it is impossible to recommend it until it has accumulated a sufficient number of ratings.<sup>166</sup>

There is another obstacle, known as sparsity of ratings. Demand for recommendations usually exceeds the availability of ratings in the system. People prefer not to give ratings but to receive them, not to contribute to forming a database, but to use it. This is the problem of the first provider of ratings, the cold start. How can users be persuaded to give ratings when they will at first receive nothing in return and could just wait until all the hard work has been done by somebody else?<sup>167</sup> The spontaneous activity of Webloggers tells us that we should not overstate this problem, and yet, a critical mass of users is essential. In recommender systems for the cinema, for example, some films will be rated by only a few cinema-goers and accordingly those films will rarely be recommended even if they are awarded high points. As a general rule, if the number of experts in a database is small in comparison with the number of items, predictions will be inaccurate. This problem can be alleviated by slotting supplementary information into the user's profile, for example, demographic data. This is known as demographic filtering. Thus, it is proposed to boost recommender systems for restaurants by adding information about the user's age, place of residence, education and employment.<sup>168</sup>

Collaborative filtering faces some purely technical problems because of the difficulty of working with large data sets. As the developers of the various competing systems comment, 'Almost all existing algorithms were evaluated over small data sets. For example, the MovieLens data set contains 35,000 customers and 3,000 items, and the EachMovie data set contains 4,000 customers and 1,600 items.'<sup>169</sup> Time-consuming calculations are best performed off-line because they are otherwise too costly, but traditional personalised e-commerce filtering is almost ineffective off-line. On-line one can only manipulate relatively modest quantities of data, but that reduces the quality of recommendations. Otherwise the operating costs of the recommender system prove unjustifiably high.

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plicit Feedback for Recommender Systems", *AAAI Workshop on Recommender Systems*, Madison, Wisconsin, Technical Report WS-98-08, 1998.

<sup>165</sup>Such a requirement demands a certain amount of effort from the user but each additional rating improves the accuracy of the analysis and benefits the customer. Developers need to minimise the number of ratings required so that a user will invest time initially in order to obtain effective results subsequently.

<sup>166</sup>Nathaniel Good et al., "Combining Collaborative Filtering with Personal Agents for Better Recommendations", *Proceedings of the Sixteenth National Conference on Artificial Intelligence*, 1999.

<sup>167</sup>Chris Avery et al., "The Market for Evaluations", *American Economic Review*, vol. 89 (3), 1999, pp. 564–584.

<sup>168</sup>Michael Pazzani, "A Framework for Collaborative, Content-Based, and Demographic Filtering", *Artificial Intelligence Review*, December 1999, pp. 393–408.

<sup>169</sup>Greg Linden et al., "Amazon.com Recommendations", *IEEE Internet Computing*, p. 79.

Another problem encountered by collaborative filtering is how to recommend something fundamentally different. Many current systems fall down at this point.<sup>170</sup> For example if, when working with Amazon.com, you indicate that you have Shakespeare's *Macbeth* in your library, the response will be a flood of helpful recommendations of other plays by Shakespeare.<sup>171</sup> Equally banal advice is forthcoming for music. In content-based systems goods are searched for by shared characteristics (they are written by the same author, have the same actor or director) or by shared keywords. Item-to-item collaborative filtering is also based on similarity of goods, so that a customer who has bought the DVD Collection of *The Godfather* might find the system recommending a list of other crime drama titles, films starring Marlon Brando, or movies directed by Francis Ford Coppola. The recommendations are often either too general (such as best-selling drama DVD titles), or unduly narrow (such as all the books by the same author), whereas the individual is looking for help with finding new products deserving of his attention. In an attempt to get round this problem, some systems, like Daily-Learner, reject items on the basis of excessive similarity to what the client already knows.<sup>172</sup>

The user-to-user version of collaborative filtering does not have this shortcoming. The customer can ask for a selection of works highly rated by his circle of recommenders, and discover something completely new.

Staff at Amazon report that they have overcome a number of inadequacies of existing recommendation algorithms by developing a scheme of their own (although the experiment with Shakespeare suggests their discoveries have not yet been fully implemented).<sup>173</sup> They have developed an item-to-item collaborative filtering algorithm for working with enormous data sets, something which Amazon.com certainly needs,<sup>174</sup> and which is capable of delivering what the authors claim are high quality recommendations in real time. The idea is that the system correlates each of the goods acquired by the customer with similar goods bought by other customers and forms a list of recommendations.<sup>175</sup>

Having created (off-line) a table of similar goods, the algorithm finds items which correlate with each of the purchases and ratings of the particular customer. He then has recommended to him the most popular analogous products which he has not yet

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<sup>170</sup>Terveen and Hill, "Beyond Recommender Systems".

<sup>171</sup>Terveen and Hill, "Beyond Recommender Systems".

<sup>172</sup>Daniel Billsus and Michael J. Pazzani, "User Modeling for Adaptive News Access", *User Modeling and User-Adapted Interaction*, vol. 10, No. 2–3, 2000, pp. 147–180. Zhang and others have proposed five rules of redundancy to determine whether a product which corresponds to the profile of a consumer contains any new information for him. Yi Zhang et al., "Novelty and Redundancy Detection in Adaptive Filtering", *Proceedings of the Twenty-Fifth Annual International ACM SIGIR Conference*, 2002, pp. 81–88.

<sup>173</sup>Linden et al., "Amazon.com Recommendations".

<sup>174</sup>Amazon.com has tens of millions of customers and products.

<sup>175</sup>In order to calculate the similarity between two items the same cosine method is used as in traditional customer-based collaborative filtering but with the difference that the vector corresponds to an item rather than the customer, and the vector's  $M$  dimensions correspond to customers who have purchased that item.



bought or items similar to those he has already bought. Nobody actually asks what kind of recommendations he wants. The computation takes very little time, since the bulk of the work, compiling the similar-items table, is done off-line, and this is the secret of the scalability of this item-to-item approach. The authors assure us that only goods which are highly correlated and similar are offered, although it is not clear where, given such a high degree of similarity, recommendations of new and original works of art could come from.

### 2.7.4 Hybrid Methods of Generating Recommendations

These methods are a combination of collaborative and content-based approaches and make it possible to avoid the limitations of each system in isolation.<sup>176</sup> The advantages of the hybrid approach<sup>177</sup> can be seen from a simple example. Let us suppose that a certain user rates a Web page summarising a film festival very highly. A second user has studied a different Internet source on the same topic. Collaborative filtering of a customer-based type will not unearth anything of value from these facts, but content-based analysis will show up the similarity of the items and identify the link between the users.

There are different ways of making these combinations. Computations can be made within the collaborative and content-based schemes separately and the predictions then brought together. Some elements of the content-based approach can be built into a collaborative methodology and vice-versa.<sup>178</sup> Finally, within a hybrid approach one can construct a unified recommender model.<sup>179</sup> The difficulty here is the need to obtain information about the items to be recommended.

Table 2.2, compiled by Adomavicius and Tuzhilin, provides a classification scheme for recommender systems.<sup>180</sup>

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<sup>176</sup>Yan Zheng Wei et al., “A Market-Based Approach to Recommender Systems”, *ACM Transactions on Information Systems*, vol. 23, No. 3, April 2005, pp. 227–266.

<sup>177</sup>For further information on hybrid recommender systems, see Appendix 1, Sect. A1.11.3.

<sup>178</sup>Thus, some hybrid recommender systems, notably Fab, are based on collaborative filtering but in addition make use of content-based profiles of users. The latter are needed to establish closeness between clients, which makes it possible to solve the problem of sparse ratings.

<sup>179</sup>Chumki Basu et al., “Recommendation as Classification: Using Social and Content-Based Information in Recommendation”, *Recommender Systems: Papers from the 1998 Workshop*, Technical Report WS-98-08, AAAI Press, 1998; Alexandrin Popescul et al., “Probabilistic Models for Unified Collaborative and Content-Based Recommendation in Sparse-Data Environments”, *Proceedings of the Seventeenth Conference on Uncertainty in Artificial Intelligence*, 2001; Andrew I. Schein et al., “Methods and Metrics for Cold-Start Recommendations”, *Proceedings of the Twenty-Fifth Annual International ACM SIGIR Conference*, 2002.

<sup>180</sup>Taken from a survey by Gediminas Adomavicius and Alexander Tuzhilin, “Toward the Next Generation of Recommender Systems”, *IEEE Transactions on Knowledge and Data Engineering*, vol. 17, No. 6, 2005, pp. 734–749.



**Table 2.2** Classification of recommender methods

Approach	Recommender methods	
	Heuristic	Model-based
Content-based	Widely accepted methods <ul style="list-style-type: none"> <li>• direct frequency-inverse frequency</li> <li>• clustering</li> </ul>	Widely accepted methods <ul style="list-style-type: none"> <li>• Bayesian classification</li> <li>• clustering</li> <li>• decision tree</li> <li>• artificial neural networks</li> </ul>
	Examples of research <ul style="list-style-type: none"> <li>• Lang 1995</li> <li>• Balabanovic and Shoham 1997</li> <li>• Pazzani and Billsus 1997</li> </ul>	Examples of research <ul style="list-style-type: none"> <li>• Pazzani and Billsus 1997</li> <li>• Mooney et al. 1998</li> <li>• Mooney and Roy 1999</li> <li>• Billsus and Pazzani 1999, 2000</li> <li>• Zhang et al. 2002</li> </ul>
Collaborative	Widely accepted methods <ul style="list-style-type: none"> <li>• closest neighbour</li> <li>• clustering</li> <li>• graph theory</li> </ul>	Widely accepted methods <ul style="list-style-type: none"> <li>• Bayesian networks</li> <li>• clustering</li> <li>• artificial neural networks</li> <li>• linear regression</li> <li>• probabilistic models</li> </ul>
	Examples of research <ul style="list-style-type: none"> <li>• Resnick et al. 1994</li> <li>• Hill et al. 1995</li> <li>• Shardanand and Maes 1995</li> <li>• Breese et al. 1998</li> <li>• Nakamura and Abe 1998</li> <li>• Aggarwal et al. 1999</li> <li>• Delgado and Ishii 1999</li> <li>• Pennock and Horwitz 1999</li> <li>• Sarwar et al. 2001</li> </ul>	Examples of research <ul style="list-style-type: none"> <li>• Billsus and Pazzani 1998</li> <li>• Breese et al. 1998</li> <li>• Ungar and Foster 1998</li> <li>• Chien and George 1999</li> <li>• Getoor and Sahami 1999</li> <li>• Pennock and Horwitz 1999</li> <li>• Goldberg et al. 2001</li> <li>• Kumar et al. 2001</li> <li>• Pavlov and Pennock 2002</li> <li>• Shani et al. 2002</li> <li>• Yu et al. 2002, 2004</li> <li>• Hofmann 2003, 2004</li> <li>• Marlin 2003</li> <li>• Si and Jin 2003</li> </ul>

**Table 2.2** (continued)

Approach	Recommender methods	
	Heuristic	Model-based
Hybrid	Combined content-based and collaborative methods	Combined content-based and collaborative methods
	<ul style="list-style-type: none"><li>• linear sequence of predicted ratings</li><li>• various voting systems</li><li>• incorporation of one element on a heuristic basis</li></ul>	<ul style="list-style-type: none"><li>• Model-based incorporation of one element into another</li><li>• Construction of a unified model</li></ul>
	Examples of research	Examples of research
	<ul style="list-style-type: none"><li>• Balabanovic and Shoham 1997</li><li>• Claypool et al. 1999</li><li>• Good et al. 1999</li><li>• Pazzani 1999</li><li>• Billsus and Pazzani 1998</li><li>• Tran and Cohen 2000</li><li>• Melville et al. 2002</li></ul>	<ul style="list-style-type: none"><li>• Basu et al. 1998</li><li>• Condliff et al. 1999</li><li>• Soboroff and Nicholas 1999</li><li>• Ansari et al. 2000</li><li>• Popescul et al. 2001</li><li>• Schein et al. 2002</li></ul>

Source: Adomavicius and Tuzhilin, “Toward the Next Generation of Recommender Systems”

**2.7.5 Effectiveness and Dimensionality of Recommendations**

Although this problem has been thoroughly considered,<sup>181</sup> the experts have yet to reach definite conclusions. The question of effectiveness is often reduced to coverage and accuracy. Coverage is the number of items for which a recommender system can give a prediction. Accuracy is quantified as the deviation of predicted from actual ratings, and is something any user can do for himself by comparing recommendations with his own rating of works he already knows. Plainly, recommender systems are not yet so established that their effectiveness can be taken for granted, and evaluation found in the literature has to be regarded as provisional. It is also clearly mistaken to try to compare directly recommender systems which handle very different quantities of material. It is one thing to make suggestions for reading in an area of highly specialised research, but quite another to do the same for mu-

<sup>181</sup>Jon L. Herlocker et al., “An Algorithmic Framework For Performing Collaborative Filtering”, *Proceedings of the Twenty-Second Annual International ACM SIGIR Conference on Research and Development in Information Retrieval* (SIGIR '99), 1999; Jonathan L. Herlocker et al., “Evaluating Collaborative Filtering Recommender Systems”, *ACM Transactions on Information Systems*, vol. 22, No. 1, 2004, pp. 5–53; Raymond J. Mooney and Loriene Roy, “Content-Based Book Recommending Using Learning for Text Categorization”, *Proceedings of the ACM SIGIR '99 Workshop on Recommender Systems: Algorithms and Evaluation*, 1999; Yinghui Yang and Balaji Padmanabhan, “On Evaluating Online Personalization”, *Proceedings of the Eleventh Workshop on Information Technologies and Systems*, December 2001, pp. 35–41.

sic, and something else again to make recommendations in the sphere of cultural consumption overall.

Plainly, recommender systems will be further developed in the near future and adapted to complex tasks in such adjacent areas as giving travel advice, and providing educational and medical services. The great problem is that today's systems avoid contextual information, without which predictive accuracy falls away rapidly. Thus, if in the course of producing recommendations for films we can take account of when, where and with whom films are seen, the effectiveness of predictions will rise. Clearly too the value of a whole series of undertakings, but in particular holiday trips, depends on time (the season, time of day, day of the week), and also on the company and circumstances in which someone uses the service. There is good reason to attempt to include all this additional data.<sup>182</sup> Interesting prospects are appearing in respect of including information about the task which the user is attempting to accomplish.<sup>183</sup>

## 2.8 Tendering for Expert Advice

Traditional evaluation is either slow and thorough (the manual labour of the critic) or rapid but superficial (rating). Neither approach satisfactorily resolves the problem of navigation. If a monetary element is introduced into a system of collaborative filtering, as is proposed in this book, a fundamental qualitative breakthrough will occur. Money-based collaborative filtering produces accurate recommendations efficiently. The high productivity of the method is achieved because the works to be assessed are divided between a large number of consumer critics, and its accuracy results from the special logic of eliciting taste communities.

How will the arrival of this new institution affect the existing critical institutions? Will collaborative filtering simply replace traditional criticism some time in the future? Quite certainly not. Despite the fact that nothing can beat the navigational value of monetary collaborative filtering, automated recommender systems are not envisaged as an alternative to existing critical practices. These will remain highly respected since each is a master of specialised functions which only it can perform. Critics will write their criticism, panels of judges will continue to select only the very best, and rankings and ratings will continue to serve advertisers. All that they produce can be usefully incorporated into the recommender systems. A critical review, for example, like any content, can be evaluated and, if the demand is there,

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<sup>182</sup>Gediminas Adomavicius and Alexander Tuzhilin, "Multidimensional Recommender Systems: A Data Warehousing Approach", *Proceedings of the Second International Workshop on Electronic Commerce (WELCOM '01)*, 2001, pp. 180–192; Gediminas Adomavicius et al., "Incorporating Contextual Information in Recommender Systems Using a Multi-Dimensional Approach", *ACM Transactions on Information Systems*, vol. 23, No. 1, January 2005, pp. 103–145.

<sup>183</sup>Jonathan L. Herlocker and Joseph A. Konstan, "Content-Independent Task-Focused Recommendation", *IEEE Internet Computing*, vol. 5, No. 6, November/December 2001, pp. 40–47.

sold in the market. Recent developments in collaborative filtering demonstrate the fantastic potential in terms of quality and accessibility of such services.

Internet services like Yahoo's Launchcast, MusicStrands and others<sup>184</sup> which work by using collaborative filtering, invite the consumer to listen to a number of songs and, as his ratings accumulate and the customer's profile becomes more accurate, provide an increasingly high quality service. The program takes account of repeat listening to the same song, which in the case of music is entirely justified.<sup>185</sup> With time the customer no longer even has to rate content, receiving something like a personal radio station automatically attuned to his individual tastes.<sup>186</sup> All these delights cost a mere \$4 a month, or \$3 if you take out an annual subscription. The service looks like digging the grave of the sound recording industry in its present-day incarnation more effectively than Napster since, if music lovers start buying only what they like and stop paying for musical ballast, the industry's revenues will plummet.

A recommender service is, however, relatively secure only for as long as it does not have too many users. When high-speed broadband becomes widespread, the industry will need to fight back and may well decide that attack is the best form of defence. One possible approach might be semantic hacking and sabotage, degrading the accuracy of the services and in general the reputation of free collaborative filters. It will then be time to turn to monetary coding of consumer signals of quality, since other methods of defence are unlikely to prove effective.

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<sup>184</sup>See Appendix 1, Sects. A1.11.4 and A1.11.8.

<sup>185</sup>This is a peculiarity of music not applicable to films and books, which are generally products consumed once only.

<sup>186</sup>For further information, see Appendix 1, Sect. A1.11.4.



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