

The Real Impact of Subsidies on the Film Industry (1970s–Present): Lessons from France and Korea

Patrick Messerlin and Jimmyn Parc

ABSTRACT

Many countries are becoming interested in developing their film industries as a way of promoting their national culture and increasing their soft power. With the continued global dominance of Hollywood films, policy makers are increasingly considering government subsidies as an essential tool in promoting their national film industries. However, the actual effectiveness of subsidies in promoting a film industry remains debatable. In order to better address this issue, this paper evaluates and compares the experiences of France and Korea. Both countries have adopted exactly the same sequence of instruments—import quotas, screen quotas, and then subsidies—yet have applied almost the opposite subsidy policies. Since the 1950s, France has intensively used subsidies while Korea has not. After more than a half century, these different subsidy policies have led to very different outcomes. This paper shows that a film industry without significant government subsidies can prosper better in the long term than a heavily subsidized one. This is an important lesson for countries that want to develop their film industry and to promote their culture by designing effective film policies.

Keywords: film industry; film policy; subsidy; France; Korea; competitiveness

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Introduction

Since the end of the Second World War, subsidies have been increasingly seen by film industries around the world as the perfect tool for challenging the continued dominance of Hollywood films. This is particularly the case as the US studios enjoy an abundant influx of capital and one of the largest pools of moviegoers. Coupled with this is the growing interest in subsidies among political circles outside the United States. This has been driven by the perception of the film industry as not only a form of mass culture, but also as part of a nation's soft power. Yet the true impact of subsidies upon the film industry continues to be much debated. Fortunately, with the passage of time, there is now sufficient data from two countries (France and Korea) to provide important lessons in understanding the true effects—positive and negative—of such subsidies on a nation's film industry.

Comparing France and Korea has many merits. Such an approach benefits immensely from the fact that these two countries exhibit both similarities and significant differences. The similarities manifest themselves in several ways. Both countries have been competing hard against Hollywood films. They see the prosperity of their respective cultural industries as an essential component in strengthening their national cultures. Their population, box office market size, and admissions per person are comparable: around 66 million, USD 1.4 billion, and 3.1 admissions per person for France, and around 50 million, USD 1.5 billion, and 4.2 admissions per person for Korea, as of 2015.¹ However, they are very different in one respect; France has implemented an intensive subsidy policy for its film industry since the 1950s, whereas Korea has granted very few subsidies to its film industry until very recently.

For a meaningful comparison, long-term data is needed. This is due to two reasons. First, examining a period shorter than one decade is likely to provide biased results, due to the unpredictable nature of success in the film business, political compromises needed for adopting film policies, and unexpected events that can have lagged or delayed effects, often appearing up to decades later.² Second, policies can have a declining impact over time. Hayward (2005) notes this point *en passant* in several cases.³ Indeed, a full appraisal of these crucial aspects needs to be conducted over a long period, as will be shown in this paper. Although Messerlin and Parc (2014) undertook

¹ See World Bank (<http://data.worldbank.org/indicator/SP.POPTOTL>) for population; Motion Picture Association of America (MPAA), *Theatrical Market Statistics 2015* (Washington, DC: MPAA, 2016) for box office market size; and Korean Film Biz Zone (<http://www.koreanfilm.or.kr/jsp/news/news.jsp?blbldComCd=601006&seq=3775&mode=VIEW>) for admissions per person.

² Omar Lizardo, "Globalization and Culture: A Sociological Perspective," (working paper, Center for the Critical Study of Global Power and Politics, CSGP 07/8, Trent University, Peterborough, 2007), 27; Anjali Roy, *The Magic of Bollywood: At Home and Abroad* (New Delhi: SAGE Publications India, 2012), 101.

³ Susan Hayward, *French National Cinema*, 2nd edition (London and New York: Routledge, 2005), 35–39.

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This paper is organized as follows. Section 1 reviews the existing literature. Section 2 presents a brief overview of French and Korean film policies.⁸ Section 3 documents the rise of their respective subsidy components over the last forty-five years (1970–present). Section 4 provides simple and quantifiable measures of how well the proclaimed objectives of the French subsidies—to enlarge the domestic film market and to increase the attractiveness of domestic films—have been achieved. Section 5 turns to the question of diminishing returns and unintended negative consequences from subsidy policies in the French and Korean contexts. Lastly, the concluding section summarizes the main implications to be drawn from these long-term analyses of the French and Korean experiences.

1. Literature Review

Subsidies provided by the government to the film industry have proven to be a popular subject of scholarly enquiry, but with surprisingly little interest in robust empirical evidence. Proponents, such as Grant (1994), Karpe (1995), Horowitz and Davey (1996), Prowda (1996), Kim (1998), Kim (2000), Peltier (2003), and Doyle (2014) and others,⁹ justified the importance of subsidies on the basis of two economic arguments. The first is the *unfair* advantage that scale economies in a highly capital-intensive and risky environment give to the Hollywood industry, and the second is the importance of preserving the cultural diversity that free markets cannot guarantee. It is also worth noting that some proponents of subsidies argue that public support is potentially the sign of a failing private sector unwilling to invest or take risks, such as in the case of the French film industry.¹⁰ In this respect, existing subsidies could reinforce the reluctance of the private sector to invest.

⁸ For a detailed analysis of the Korean film policy, see Parc, “An Eclectic Approach”; and Jimmy Parc, “The Effects of Protection in Cultural Industries: The Case of the Korean Film Policies,” *International Journal of Cultural Policy* (January 2016), doi: 10.1080/10286632.2015.1116526: 13.

⁹ Jonas M. Grant, “Jurassic Trade Dispute: The Exclusion of the Audiovisual Sector from the GATT,” *Indiana Law Journal* 70, no. 4 (1994): 1333–1365; Craig R. Karpe, “European Cultural Protectionism and the Socioeconomic Forces that will Defeat It,” *Indiana International & Comparative Law Review* 5, no. 2 (1995): 425–459; David H. Horowitz and Peter J. Davey, “Financing American Films at Home and Abroad,” *Columbia-VLS Journal of Law & the Art* 20 (1996): 461–487; Judith B. Prowda, “US Dominance in the Marketplace of Culture and the French Cultural Exception,” *New York University Journal of International Law and Politics* 29 (1996): 193–210; Joongi Kim, “Viability of Screen Quotas in Korea: The Cultural Exception under the International Trade Regime,” *Korean Journal of International and Comparative Law* 26 (1998): 199–242; Carolyn Hyun-Kyung Kim, “Building the Korean Film Industry’s Competitiveness: Abolish the Screen Quota and Subsidize the Film Industry,” *Pacific Rim Law & Policy Journal* 9, no. 2 (2000): 353–378; Stéphanie Peltier, “Les Industries Culturelles: Une Exception Économique ?” [Cultural industries: an economic exception?], *Cahiers Français* 312 (January-February 2003): 31–36, http://www.ladocumentationfrancaise.fr/var/storage/numeros/3303330403129/3303330403129_EX.pdf; Gillian Doyle, “Audiovisual Services: International Trade and Cultural Policy,” in *Trade Policy in Asia: Higher Education and Media Services*, eds. OECD and Asian Development Bank (Singapore: Asian Development Bank Institute, 2014), 301–335.

¹⁰ Pierre-Jean Benghozi and Christian Delage, *Une histoire économique du cinéma français, 1895–1995: Regards franco-américains* [Economic history of French cinema, 1895–1995: Franco-American perspectives] (Paris: Harmattan, 1997); Susan Hayward, *French National Cinema*.

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impressive performance of the Korean film industry since the mid-1990s achieved through internationalization, freer market functions, and the role of corporations through competition. Overall, this has helped the industry to become more sustainable and sophisticated.¹⁹

2. French and Korean Film Policies: An Overview

This section reveals the similarities over the long run between France and Korea. Despite the deep economic and political differences between France and Korea over the last seven to eight decades, both countries have implemented the same sequence of instruments—import quotas, screen quotas, and then subsidies—when designing their film policies, and in both cases subsidies have emerged as the instrument of last resort. Table 1 shows that most pre-subsidy instruments, such as quotas, have been progressively abolished, while others which are still part of existing domestic laws are not enforced for various reasons described in section 3. The profound economic and political forces behind such a similar evolution in policies are analyzed in section 3.

Both countries began with import quotas that required the production and export of a certain number of domestic films in exchange for a license to import foreign films, notable because foreign films are often considered more lucrative than domestic films. Interestingly, this measure was adopted in France during the early 1920s despite the opposition of the movie theatres, which were screening a large number of more profitable and popular American films. This opposition was also due to the fact that many movie theatres were built during this period, and that the small number of French films produced could not meet the increasing domestic demand generated by this increased number of movie theaters. The French import quota adopted in 1928 did not last long due to strong pressure from the US government and the creation of French subsidiaries by the Hollywood studios. The appearance of sound films, known as *talkies*, in the early 1930s, triggered other protectionist measures, such as the obligation to dub US films in the French language and a quota on the number of dubbed US films (150 in 1936, then 110 in 1952).²⁰

The situation in Korea followed a similar pattern. The import quota regime was adopted in 1958 and lasted until 1985. During this long period, the Korean government enforced the import quota system, but amended the details of its management in order to revive the industry. However, this import quota was greatly misused by both government and business. Quality-based import quotas were poorly implemented (until 1966) by the government due to overriding political factors. When quantity-based import quotas replaced the old system (after 1966), it was mostly abused by business to

¹⁹ Parc, “The Effects of Protection”.

²⁰ Hayward, *French National Cinema*, 26.

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import more lucrative foreign films.²² In 1986, the import quota was abolished under US pressure as a result of two bilateral film agreements signed in 1985 and 1988, respectively. The screen quotas—nominally in place since 1966—became then the main instrument to protect the Korean film industry.

In 1946 and 1986, France and Korea, respectively, shifted to screen quotas that imposed a mandatory number of days for screening domestic films in theatres. In both cases, US pressure was the key—though far from unique—reason for such shifts, manifested by the Blum-Byrnes Agreement (1946) in the case of France and the Korea-US Film Agreements (1985 and 1988) with Korea. However, screen quotas do not protect domestic films because simply reserving a set number of screening days does not guarantee they will attract a larger audience during that specific period.²³ Interestingly, screen quotas still exist to some extent in France and Korea. However, they are defined in such a way that they do not represent binding requirements under current market conditions. For instance, the recent market share of Korean films domestically is much higher (55–60%) than the share that could be expected from the current screen quota system (73 days compared to the previous 146 days).²⁴ Similarly, French screen quotas have re-emerged under the form of private practices among movie theaters, known as *engagements de programmation*, or *programming commitments*. In a broad sense, they ensure, among other aspects, that at least 40 percent of movie theatre screenings are dedicated to European works.²⁵

3. Development of French and Korean Subsidy Policies

An irresistible and massive rise of subsidies over the long run has been evident in the French film industry. This evolution reflects the enormous power devolved to the vested interests of the film industry by the way the French policy was designed—in particular, its sources of funding and its decision making procedures. By contrast, subsidies to the Korean film industry were insignificant until recently, although an increase in subsidies has been noticeable since the late-1990s. The current subsidy regime was implemented

²² Pak Sŭng-hyŏn, “Taejung maech’e ūi chŏngch’ijŏk kijehwa Han’guk yŏnghwa wa kŏnjŏnsŏng koyang” [Political legitimacy and the production of wholesome movies in Korea, 1966–1979], *Ōllon kwa sahoe* 13, no. 1 (2005): 46–74; Kwŏn Hyŏk-in and Yi Hyŏn-chŏng, “Yŏnghwa sanŏp palchŏn tangye rŭl patang ūro pon munhwa kontench’ū sanŏp ūi chŏngbu kaeip kwa sanŏp sŏngsukdo ūi yŏngwansŏng” [How does government policy affect the entertainment industry? A case study of the Korean film history], *Han’guk kontench’ūhakhoe nonmunji* 14, no. 7 (2014): 386–394; Parc, “The Effects of Protection.”

²³ Parc, “The Effects of Protection,” 7.

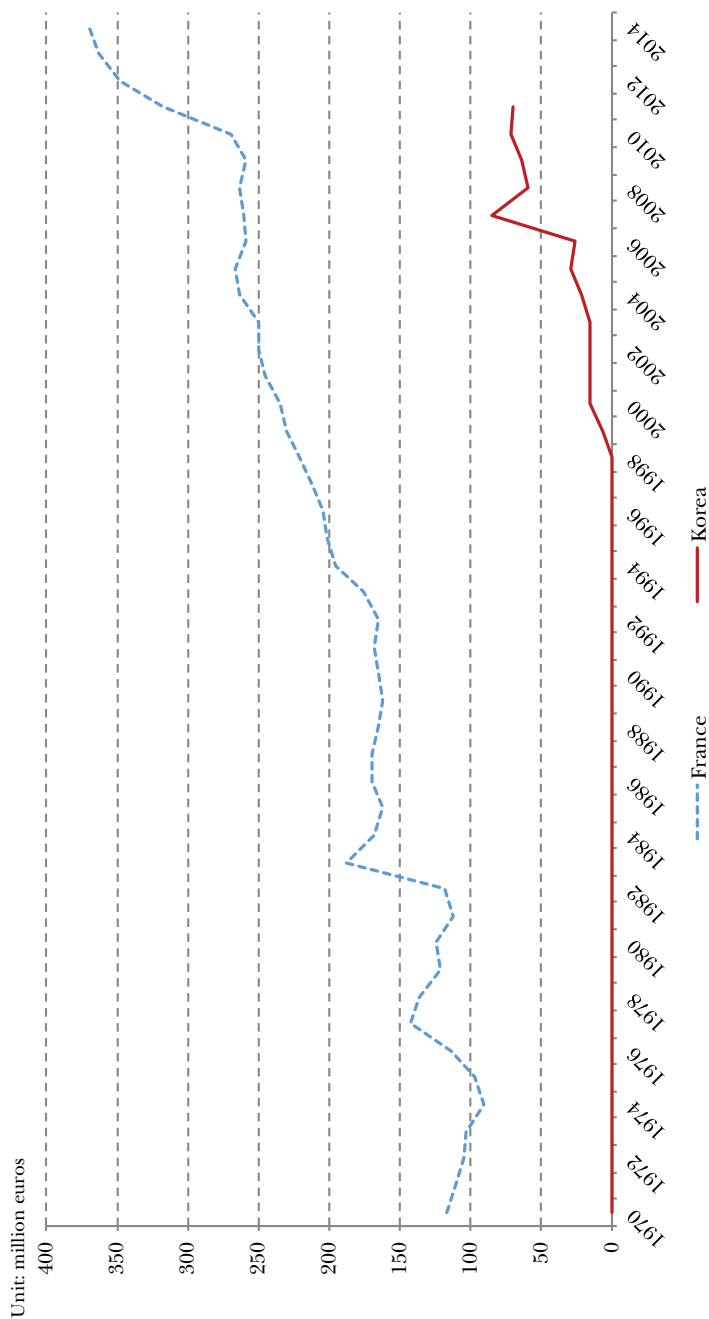
²⁴ In Korea, screen quotas guaranteed 146 days per year before July 2006; later it was reduced to 73 days per year after the signing of the Korea-US FTA. Regarding the market share of domestic films in Korea it was around 20 percent from the mid-1980s to mid-1990s. The market share increased in the late 1990s, however this is due to the function of private sectors in the Korean film industry (see Parc, “The Effects of Protection”).

²⁵ *Médiateur du Cinéma, Rapport d'activité 2014* [Activity report 2014] (Paris: CNC, 2015).

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Figure 1
The Growth of Subsidies in France and Korea (1970–2014)



Sources: CNC (various issues) for France; Kim (2012, 2013) and Parc (2016) for Korea.²⁹

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In response, the Korean government decided to increase the amount of subsidies to be granted to the film industry by adopting the seat tax in April 2007 as used in France and by entrusting its management to an institution similar to CNC, the KOFIC. Like France, this scheme was initially expected to last for only four years. Furthermore, these subsidies were renewed in 2014, again similar to what happened in France in 1953. Indeed, the growth of Korean subsidies in 2008–2011 looks very similar to what occurred during the period of 1982–1986 in France (see figure 1). Still, it is crucial to stress that currently the amount of subsidies in Korea is still much lower than in France.

4. Impact of Subsidies: Market Size, Market Share, and the Attractiveness of Domestic Films

In order to assess the impact of subsidies, the French and Korean film industries are compared by using two key indicators: the size of the overall film market and the market share of domestic films. These two indicators are robust enough to measure the attractiveness of a film industry, whose growth is the main goal of subsidies according to their advocates. The comparative results show that the more subsidized French industry does not fare as well as the unsubsidized Korean film industry. Moreover, this signifies that the attractiveness of French films has also deteriorated compared to German and Spanish films, an observation reinforcing the results drawn from the comparison between France and Korea.

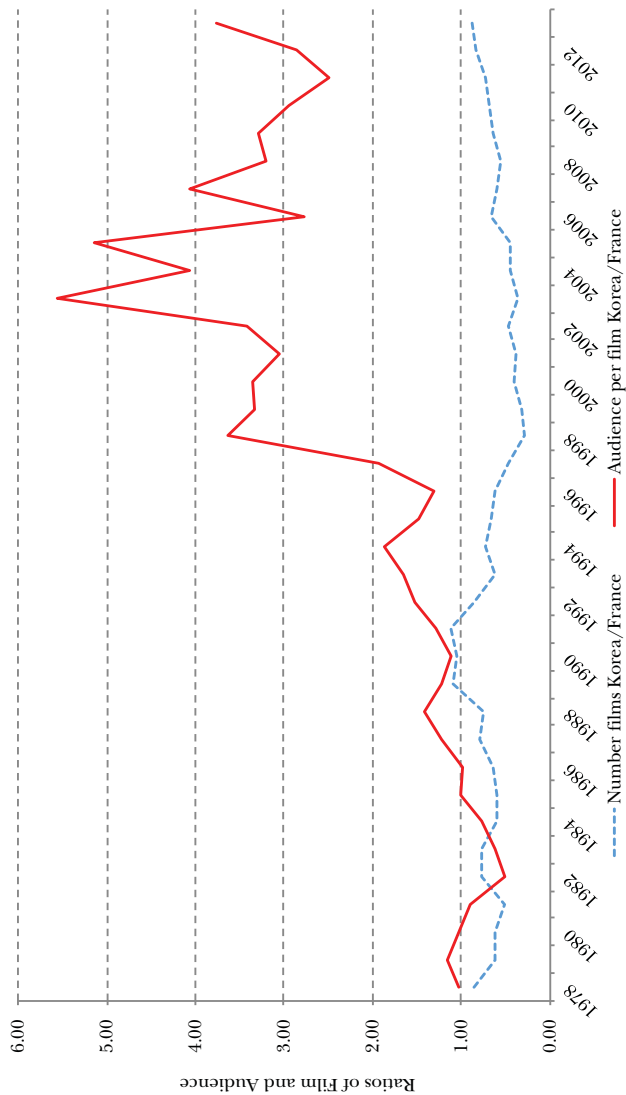
4.1. Looking for Appropriate Indicators

The literature on film subsidies often uses the number of films produced as a criterion for assessing the subsidy policy. However, this indicator has serious methodological flaws as other factors can explain the large number of films produced. First, such an approach neglects the fact that increased subsidies are almost certain to generate more produced films. Second, subsidies may lead to overproduction, producing films that are never shown in movie theatres, as has happened with the French film industry.³⁴ Third, the fact that decisions to grant subsidies are made by committees dominated by representatives of the film industry (as in France) and decisions to grant import licenses are determined by officials (as in Korea in the context of import quotas during 1960s and 1970s) can also increase the number of often low-quality films produced.³⁵ Lastly, in a favourable business environment, production companies are motivated to produce a greater number of higher quality films in order to attract larger audiences. This has been the case with Korean film producers since the 2000s.

³⁴ Cour des Comptes, “La Gestion et le Financement.”

³⁵ Pak, “Taejung maech’e üi”; Kwōn and Yi, “Yōnghwa sanōp”; Parc, “The Effects of Protection.”

Figure 2
 Number of Films Produced and Average Audience per Film for France and Korea (1978–2014)



Note: Data can vary by source. Parc (2014) compared and collected accurate data among them.³⁶
 Sources: CNC (various issues) for France; Parc (2014, 2016) for Korea (data are originally from Koreanfilm.org for 1978–2002, Korea Film Council [various issues] for 2003–2013; Admissions per capita of 1998 and 2008 are from KOFIC [various issues])³⁷

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films has significantly increased compared to that of French films or—if the film quality of these countries has not improved—the attractiveness of French films has deteriorated. Again, these evolutions are similar to the one observed with Korea, hence they help to support the two lessons drawn from the comparison of Korea with France.

5. Subsidies and Revenues: A Case of Diminishing Returns

Long-term data is necessary to shed some light on the dynamics of public subsidies by looking at a key question: has a permanent regime of ever growing subsidies had a constant impact over time, or is there some sign of its diminishing returns? What follows shows a clear trend of *diminishing returns* from subsidies with respect to revenues that raises questions about the sustainability of the current policy in the long run. This trend reflects also the existence of *unintended negative consequences* on the French film industry related to the French subsidy policy.

5.1. Revenues and Subsidies: A Negative Evolution

Figure 5 presents the average admission revenue of French films generated by one euro of subsidies—hereafter the *impact ratio* of French subsidies for domestic films (shown on the left vertical axis). Estimated in constant euros, French subsidies have increased threefold over the whole period while admission revenues have been almost constant. In other words, the average admission revenue of domestic films generated by one euro of subsidies has substantially declined over the whole period. This decline appeared in three very distinct periods: a sharp decline of this impact ratio from the mid-1970s to the mid-1990s, a slight improvement from the mid-1990s to the late-2000s, and a substantial decline since the late-2000s. More importantly, in recent years, the average impact ratio is close to one euro of admission revenues per one euro of subsidies—not a desirable situation.⁴³

A similar observation can be undertaken with Korean subsidies. As expected, the average impact ratio of Korean subsidies in figure 5 (shown on the right vertical axis) also sharply declined when subsidies were massively increased in 2007. From the very early 2000s until 2006, it was in the range of 16–18 euros of revenues per one euro of subsidies. Since 2007, it has been roughly 5.4 euros of admission revenues per euro of subsidies. This decline reflects two mutually reinforcing forces. First and foremost, it is due to the very significant increase of Korean subsidies (denominator of the impact ratio) following the imposition of the seat tax in 2007. Second, it has been amplified by a short-term fall in 2007–2009 of Korean admission revenues (numerator of the impact ratio).⁴⁴ That said, it should be pointed out that

⁴² CNC, *Annual Bilans*.

⁴³ All the more because, as underlined in section 3, the general subsidy data used in this paper do not incorporate the massive subsidies associated with the *intermittents du spectacle*.

⁴⁴ Parc, “The Effects of Protection,” 10.

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eight and five percent less expensive than for US or other foreign films, respectively. Unfortunately, the same calculations are not possible for the Korean case because ticket prices for Korean and foreign films are the same for any given location; ticket prices vary only according to seat location in the theater.⁴⁸

This relative price reversal confirms the existence of unintended negative effects from French subsidies on the French film industry. Explaining this reversal in detail is beyond the scope of this paper. What follows provides just three alternative or complementary explanations that should be explored in any future research.

First, such a relative price reversal could be interpreted as reflecting the expected quality of films. This would mean that, in the earlier decades covered, French films were perceived to be better than US films by the domestic audience, but that the converse perception has prevailed in recent years. Second, the relative price reversal could mirror pricing policies of movie theatres. For instance, movie theatres may feel the need to charge relatively lower prices for French films in order to attract a target audience, such as groups of students or members of certain associations. Lastly, movie theatres subjected to programming commitments may need to fill up their seats by discounting the prices for the films subjected to such requirements. Again, all these interpretations may be valid independently or jointly.

An important consequence of this relative price reversal is the need to adjust the raw data on admissions. The observed admission shares for French films in the late 2000s is likely to be boosted by increasingly cheaper prices, compared to prices for US or other foreign films. Assuming a (conservative) cross-price elasticity of 0.7 to 1.0 for films in movie theatres, the observed number of admissions for French films in the 2010s has been inflated by six to eight percent as a result of the recent pricing policy of cheaper French films in movie theatres. In other words, the adjusted admission share of French films—the one to be used for comparisons in the long run and for international comparison with countries without such a pricing policy—is roughly 35–36 percent, rather than 39 percent.

Conclusion

This paper compares the performance of a film industry benefiting from a massive subsidy policy (France) with one that has not enjoyed subsidies until relatively recently (Korea). This comparison is one of the first in-depth tests of the real impact of subsidies on film industries. The findings are quite

⁴⁷ CNC, *Annual Bilans*.

⁴⁸ Recently, several movie theatres have introduced some luxury seats in theatres resulting in higher ticket prices. This is not related to the discrimination against the film's country of origin; thus, it is fundamentally different from the French case.

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