

The myth of subsidies in the film industry: a comparative analysis of European and US approaches

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It has been widely believed that subsidies can help revive film industries, but the link between the intent and the actual results deserves more careful scrutiny. This paper addresses this issue by comparing and analyzing Europe and the United States. Originally, Europe's subsidies were developed to increase the number of film productions, but they soon became ineffective and were largely exploited by Hollywood as a way to circumvent European protectionist measures. By contrast, US subsidy policies have been initiated and implemented by local state governments in order to enjoy the economic and cultural benefits from the filmmaking business, instead of supporting the film industry *per se*. Again though, these local subsidies have been exploited by Hollywood studios leaving little benefit for the local states. All of these points show that subsidies can easily become a myth, thus careful consideration should be undertaken when developing more effective policies for the future.

Keywords: film industry; European film industry; US film industry; subsidy; cultural policy

Introduction

It is often said that the film industry exists in a unique place between culture and commerce, which has induced governments to use various measures such as quotas and subsidies to either protect or promote this key sector. Regarding this duality aspect, there is a commonly-held perception that European films tend to focus on the cultural value whereas US films are more orientated toward the commercial (or economic) value. It might then be surprising to learn that subsidies have not only been implemented in Europe, but also in the United States (US). These two cases provide an interesting opportunity in which to examine how subsidies have emerged and developed throughout both of their histories. Furthermore, they can be tested to see whether these subsidies have been able to achieve their desired goals in an efficient way.

Despite the 'allegedly' contrasting paths pursued by the film industries of Europe and the US, they have the same origin in terms of technological advancement. On March 22, 1895, 200 people paid to watch the first real motion picture screened in Paris (Youngs 2015).¹ It was about French workers leaving the Lumière Factory after work, which

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Table 1. Financial support in the film industry (selected countries)

	Subsidies			Tax relief		
	France		UK	France	UK	US
	Film	TV				
2005	383.8	111.4	n.a.	36.7	n.a.	123.0
2006	354.0	114.8	221.7	52.1	243.7	239.2
2007	352.4	107.7	235.7	63.1	204.8	556.6
2008	357.5	117.4	240.4	75.7	171.3	779.0
2009	305.3	98.4	248.6	76.3	160.9	757.9
2010	311.8	92.2	253.9	75.3	227.9	900.1
2011	406.0	101.0	234.7	72.1	313.5	1,116.8
2012	419.3	94.8	232.1	88.5	312.9	1,413.5
2013	414.9	104.2	241.6	79.5	320.1	1,430.3
2014	447.6	92.0	240.0	104.9	347.6	1,548.8
2015	420.9	86.1	248.6	106.3	422.4	1,335.0
2016	448.8	105.3	246.7	109.7	528.9	1,440.2
2017	465.0	100.2	229.3	202.3	570.6	n.a.
2018	445.6	108.1	n.a.	222.7	n.a.	n.a.

Unit: millions of constant 2010 USD.

Note: data on fiscal years have been recalculated on the basis of calendar years.

Sources: adopted from Parc and Messerlin (2018b) but further updated; originated from Centre national du cinéma et de l'image animée (CNC) (Various issues) for France, British Film Institute (Various issues) for the UK, and Michael Thom (personal communication, September 5, 2018) for the US.

Table 1 is important in demonstrating the amount of subsidies and its growth at stake in these three countries and for capturing the distribution of two kinds of subsidies, subsidies *stricto sensu* and tax reliefs. However, for a greater understanding it would be necessary to examine how these subsidies have developed and how the business in the film industry has responded to these various subsidy regimes. Therefore, based on the existing literature this paper takes on an historical approach for analyzing the link between the initial intent of these subsidies and the reality of their achievement. By analyzing the evolving history of subsidies and how business has responded, a number of meaningful findings and implications can be extracted. The following sections cover these issues on Europe and the US, respectively.

Europe's subsidies and its film industry

The history of Europe's subsidy policies

The development of Europe's various types of subsidies is closely related to the rise of the US film industry and at the center of such efforts are France and Italy. US film companies began to penetrate the European market in 1906 when Vitagraph Studio opened its first distribution office in London. The expansion of US films in Europe developed very quickly. In the UK, for example, the market share of US films reached 60–70 percent by 1911 (Thompson 2010). Given this emerging challenge, Germany was the first country that began to intervene in its national film industry at the government-level from around 1916 (Mattelart 2009; Thompson 1987). This was significant as Germany was one of the leading foreign consumers for US films. Most protectionist measures imposed in Europe during this period were quotas on imports, screening, and dubbing.³ In fact, it is considered that no true subsidy regime was introduced in Europe until the

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In particular, California faced increasingly serious levels of unemployment due to the runaway production to Canada. To address this problem, the state government announced its Film California First Program as a form of MPI in May 2000. Although this program was scaled back quickly as the state's fiscal crisis deepened (Dawson 2006), it opened up the possibility for other incentives. Following California, other states such as Alabama, Arkansas, Ohio, and Texas, enacted film tax credits or rebate legislation for the first time in 2009 (Luther 2010). Soon, this trend spread all across the US and by the end of 2009, forty-four states including Puerto Rico and Washington D.C. offered some form of incentive to film and television productions.

At the same time, there have been efforts to find a balance between the use of tax revenues and the unclear economic outcomes that state film incentive programs were expected to produce. Subsequently, thirteen states have ended their incentive programs. This has left only thirty-one states, including Washington D.C., Puerto Rico, and the U.S. Virgin Islands, that continue to maintain such programs since 2018. While most states maintained or reduced the level of incentives, a few have made slight increases to their programs. Most states' MPIs walk a fine line as they engage in an incentive race to reduce the chances of losing their film industry to another country or local state (NCSL 2018).

Response of the industry and the impact of subsidies

The business environment for the film industry in the US is very different from that of Europe. It is incomparable in terms of productivity and revenues while its film companies have been more mobile than any other for distribution and even production. In this regard, the critical point that needs to be stressed is that it has not been for internal reasons that the US film companies *per se* have called for subsidies, but rather external ones such as angry workers who lost their jobs due to increased runaway productions as well as various states that have sought to boost their local economy by hosting the filmmaking business. In other words, the subsidies that a number of local states offer are not really to help the US film industry *per se*, but to support other interest groups.

In addition, when Louisiana initiated subsidies, its tax credit was enacted for 'investment losses in films with substantial Louisiana content' (State of Louisiana 1992). This approach should be carefully examined. First, the film industry is very unpredictable and the success of a film cannot be guaranteed (Parc 2017). Second, 'having substantial Louisiana content' is not what audiences look for but rather they are drawn in by an interesting story or well-known stars. Thus, it is clear that this type of subsidy only seeks to promote local culture and boost the image of the state. Finally, it is worth looking at the fact that the Louisiana Economic Development (2019) highlighted the economic benefits of the filmmaking business when it listed up the film industry as one of the key sectors for the state's local economic development and sustainability.

The case of the Californian subsidy regime is not much different from the approach of Louisiana. Given the serious unemployment levels in California, the Film California First Program was instituted to reimburse filmmakers for the wages of employees (Dawson 2006). In later years, California's subsidy regime has further expanded to tax credits, tax exemptions, and other measures (Luther 2010). From California's perspective, maintaining and attracting the filmmaking business is a good boost for its local economy.

This does not mean that US film companies will produce more or less films depending on the level of subsidies provided. They will produce films that they have planned regardless of the production location, either in California, Louisiana, Canada, or elsewhere by using any means available. Furthermore, there is no reason for US film companies to

8. *Festival de Cannes (2020)* states that ‘films that are representative of “arthouse cinema with a wide audience appeal” are presented in competition,’ whereas the Venice Film Festival aims to promote international films in all its forms as art, entertainment, and as an industry (*La biennale di Venezia 2020*).

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