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The Creative Economy as "Big Business": Evaluating State Strategies to Lure Filmmakers

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Abstract

State policy makers across the United States have ramped up efforts to attract film and television production through tax-based subsidies that provide producers with money to finance productions. To better understand the role of tax-based financing, we examine evidence concerning the fiscal impacts of film and television subsidy programs, and the methods used to calculate job creation and tourism impacts. We also look at the potential for developing film and television industries outside Los Angeles and New York. Our findings illuminate why policy makers need to carefully evaluate the methods used to rationalize public expenditures on incentives for economic development.

Keywords

film and television production, incentives, subsidies, economic development, creative economy, runaway production

Introduction

The pursuit of creative or cultural economy oriented strategies for the purpose of economic development can take a variety of forms.[1] Many creative economy initiatives, such as neighborhood festivals or designated "design" districts, provide a low-cost way to market the community and build its attraction to residents and newcomers. For the most part, these approaches focus on the creative economy with a small "c"—individual artists, vernacular culture, ethnic arts and crafts, small nonprofit organizations, and creative entrepreneurs (Markusen and King 2003; Markusen and Schrock 2006; Mt. Auburn Associates 2000). But the creative economy is also "big business." For national and state economic development policy makers, the creative economy that "counts" is the one found in a set of industries including advertising (Leslie 1997), fashion (Currid 2007; Rantisi 2004), and particularly the entertainment media industries of film and television (Scott 2005; Christopherson 2002, 2006; Christopherson et al. 2006).

The entertainment media industries are particularly attractive economic development targets because they are perceived as "creating 'clean,' knowledge-intensive jobs and bringing additional benefits to the economy in the form of multiplier effects, audio-visual trade and spin-off benefits in terms of tourism and image" (Morawetz et al. 2007, 428). The presence of film crews entertains tourists. The resulting movies or TV shows may help market the city or state where scenes were shot. And because film crew activity is highly visible to the public, it appeals to policy makers who want to be seen as taking action to improve their economy.

Economic development initiatives aimed at attracting entertainment media are very different from those whose intention is to foster a "creative class" or improve the local quality of life through cultural initiatives. They are designed by industry lobbyists—most notably, the Motion Picture Association of America (MPAA)—and may be locally supported by the same "growth coalitions" that promote urban redevelopment projects (Molotch 1976). They engage policy makers at the national, state, and city scales. By contrast with efforts aimed at promoting a creative environment, they make significant claims on public revenues; U.S. states most actively engaged in these "big business" creative economy strategies spend considerably more tax dollars on subsidies to entertainment media firms than they do in supporting statewide arts programs.[2] Indeed, the tax incentives and subsidies now available across the United States to producers in the contemporary film and television industries are but one manifestation of an international trend in which states (national and subnational) compete to host media production activities by directly financing film or television projects (Morawetz et al. 2007).

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From the perspective of economic development policy, the move toward direct subsidization of entertainment media production activities exemplifies the increasing bargaining power of transnational firms vis-à-vis places competing for what are perceived as "good" jobs (Christopherson and Clark 2007; Markusen and Nesse 2007).

Since the late 1990s, state policy makers across the United States have ramped up efforts to attract film and television production to their states through tax-based subsidies that provide producers with money to finance their productions. These subsidies are justified on the grounds that this branch of the creative economy—media production activity—promotes economic development and injects millions of dollars into the state economy. However, as subsidies to film and television producers have increased, questions are being raised about the use of public money to lure media producers to states and cities. Skeptics ask whether the cost of attracting media producers outweighs the benefit to the state's economy. They particularly question whether new, sustainable industries can be built in cities and states that have no history of media industry investment nor a sizable skilled production workforce.

To better understand the role that tax-based financing plays in film and television production, and whether it pays off for state economies, we look at how the subsidies-oriented approach has emerged from the service-oriented incentives that were the norm until the late 1990s. We assess the claims put forward regarding economic development benefits, and the assumptions underlying those claims. We examine the available evidence concerning the fiscal impacts of film and television subsidy programs, and the methods used to calculate subsidy-produced job creation and tourism impacts.[3]

We then delve into what the debate over entertainment media subsidies means for contemporary economic development policy and practice. Our findings reinforce concerns about transparency and inefficient use of public money as states compete for inward investment (Markusen 2007). They particularly illuminate why economic development policy makers need to be knowledgeable about, and carefully evaluate, the methods employed in studies used to rationalize public expenditures on industry-specific incentives for economic development purposes.

We also look at the potential for developing film and television industries outside the industry centers of Los Angeles and New York. How likely is it that the more stable preproduction and postproduction activities will follow footloose film and television shooting to states offering subsidies? Are political leaders realistically assessing what it takes to establish a full-fledged media production industry in their state?

Finally, we examine the use of production subsidies in New York State, where an established media industry has existed since the early 1900s. New York's industry presence is second only to that of California (centered in Los Angeles), yet in 2004 and again in 2008, New York passed legislation to offer substantial tax incentives to major media firms locating film and television production in the state. Why are subsidies still needed to attract production to a place that already has a sizable labor force and production infrastructure such as New York City?

First, we briefly review how this now global industry functions—the context in which producers must seek out money to finance their productions, and national and subnational states vie with each other to get a piece of the production action.

The Contemporary Film and Television Production Environment

Entertainment media production is notoriously high risk, and film and television distributors, producers, and the workforce all undertake strategies to reduce their risk or shift risks downward to their partners in the production and distribution process. Their risk-reduction strategies range from industry lobbying to change the regulation of competition and trade policies affecting media firms, to producers' pursuit of complex tax avoidance and financing schemes, to media workers' use of exclusive networks to insure employment continuity (Christopherson 2002, 2006, 2008). And as the U.S. entertainment media has lost its hegemonic position in global entertainment and U.S.-based media conglomerates search for a new competitive edge, these risk reduction efforts have intensified, particularly around project financing.

This is a growth industry. The global market for entertainment products has continued to expand, and it has become increasingly complex because of the widening range of distribution formats, technologies, and channels by which media entertainment products can reach the consumer (Lorenzen 2007).

Furthermore, there have also been major changes in how media products are financed and produced. Producers seeking financing for their film and television projects now have multiple options worldwide and a range of well-equipped production locations to choose from, such as "The Gold Coast" near Brisbane in Australia or Vancouver in British Columbia, Canada, both of which have excellent studio facilities and skilled production crews (Coe 2000, 2001). There, producers not only get financing for their productions, but also benefit from low-cost labor. Policy measures in European countries have transformed a film industry once predicated on protecting the expression of cultural distinctiveness, into one oriented toward attracting coproductions for global markets (Morawetz et al. 2007). State subsidies, once reserved for culturally distinct productions for national or international niche markets, now finance multiproducer films aimed at a broader audience. U.S.-originated film projects have become more bifurcated between "blockbusters" costing more than $100 million to produce (with the majority of production frequently taking place outside the United States), and an independent film sector composed of films made for under

$15 million. These independent films comprise over half of film releases, but account for only 5 percent of total revenue from all distribution sources (Schatz 2008). While mid-level films with budgets of $20 million to $50 million continue to be made, they now may be budgeted at that level to qualify for subsidy financing that is aimed at the mid-budget film (Morawetz et al. 2007).

While one might think that this multiplication of financing offerings and production venues across the world would undermine the market position of U.S.-based entertainment media conglomerates, they have continued to thrive in the emerging global media market. Despite the considerable risks they face and market volatility, their revenues have continued to grow (Epstein 2005).

One reason for the continued profitability of these firms is their control over product distribution. Since the mid-1980s, most of the distribution of entertainment products in the United States has concentrated into the hands of six companies (Sony, Viacom, General Electric, Time Warner, Disney, and the News Corporation), enabling them to increase profits through their ownership of creative intellectual property "repurposed" across multiple distribution platforms, and to reduce their risks (*Columbia Journalism Review* 2008). The film divisions of these six companies constitute the membership of the Motion Picture Association of America (MPAA 2009). As a deregulated media has consolidated under a few corporations with many product lines and distribution channels at their disposal, their production arms (the major film studios and the broadcast and cable TV networks) have been moving from their traditional financing and distribution role to more of a *marketing* and distribution role.

In this contemporary entertainment media industry, producers work on contract rather than as employees. They operate in an environment in which costs have risen dramatically, particularly because of the bargaining power of media "talent" (including actors, directors, and writers) and the increased cost of marketing entertainment media across distribution venues—theater, network television, cable, DVD and videotape, and private exhibition. As contractors, producers are squeezed by the distribution conglomerate to find financing for their projects and reduce production costs wherever possible. Media production is labor intensive and depends on a highly skilled workforce, so cost reduction means labor cost reduction. The salaries of the "talent" are a significant part of the total budget, depending on their star power, but since well-known actors and directors are important to marketing the film or television product, cost reduction pressure is typically aimed at the shooting phase of the production process (from 20 percent to 60 percent of the budget, of which on-location expenditures are a portion) and the skilled craft workforce. If the production is made under contract to a distribution company, it is likely to be subject to cost control measures typical of their parent firms, such as General Electric.

At the same time, changes in technology and investments by companies and governments have opened up a range of new international production locations, particularly in the English-speaking world. In the 2000s, a substantial proportion of the movies produced by the major U.S.- based studios were filmed outside the United States. The separation of the feature film industry into a growing independent film segment and a small international blockbuster segment has been accompanied by intensifying competition for increasingly rare, studio-distributed, mid-budget film productions. This narrow product segment is the most sought after by North American states and provinces because of production company expenditures on location during the production phase.

A similar pattern is emerging in television, with growth primarily in low-cost productions for cable networks, such as game shows or "reality" television. The broadcasting networks are reducing their overall investment in higher budget dramatic series, and looking for ways to reduce the costs of producing the remaining series. These trends are affecting production and employment, both in Los Angeles and New York.

One way that producers—backed by the companies that distribute media products—deal with the cost squeeze and financing dilemma is to exploit competition among regions to host the shooting phase of a film or television production. The ability of the conglomerates and their contracted producers to shift costs to the regional and subnational state, and in effect derive a stream of revenue from the public sector, is central to any explanation of international media outsourcing. In the contemporary era, location choices once made for creative reasons have been replaced by location choices made for economic reasons (Foderaro 2008). Where once producers principally sought a shooting location that would distinguish their film or TV show and help them tell their story, the struggle to find financing—and the availability of direct or indirect government assistance with financing—is now a key driver in producers' location decisions. And, even in cases where the look of the location is critical to the story, a producer can use inter-regional competition to obtain "incentives" from the preferred location to finance the film.[4]

These dynamics create the backdrop for the current trends in local, state, provincial, and national subsidies to media producers.

The Move from Services to Subsidies in Media Economic Development

Film crews have always left Los Angeles, the historically dominant production center, to shoot in exotic or less expensive locales. Beginning in the 1970s and especially in the 1980s, there was a dramatic increase in demand for lower budget productions, stimulated by the deregulation of television in global markets and the emergence of potential new domestic markets such as home video. During this period, market regulation fostered competition in distribution and production. The differences among major firms decreased and the differences among individual products accelerated. The search for non-LA locations for production shooting began as a search for locales that would aid in product differentiation. For example, a common script notation of the period was "NPT"—no palm trees—calling for a setting that did not resemble Southern California (Christopherson and Storper 1986).

Independent producers and mid-size firms, such as Cannon and Lorimar Telepictures, expanded production in response to the increasing demand for differentiated products. For a period lasting no more than a few years, the bargaining power of these "independents" and their associated production networks increased vis-à-vis the major studios. The "majors" would soon move toward vertical and horizontal integration and reestablish their dominance over media production and distribution, but during this brief "Golden Age"—with increasing demand, new markets, and a variety of product distributors—independent producers responded to a more competitive market for media entertainment products by differentiating their products via their choice of location.[5] And because of increasing use of the new handheld camera, film crews were able to exploit both the creative possibilities and the lower costs of shooting "on-location."

They also took advantage of a range of incentives provided by U.S. cities and states to lure film crews to shoot their film outside Los Angeles (Weinstein and Clower 2000). The rationale behind these incentives was to promote business development in general and tourism business in particular: they wanted to have scenes from their region appear in films and television shows and to be identified in the credits, as an instrument of civic pride and a promotional device to attract visitors and conventions. Where government-sponsored film offices existed, they tended to be associated with the convention and tourism bureau.

The incentives themselves consisted of free government services—identifying appropriate shooting locations; community relations help; access to streets, public facilities, or public lands; permits; police protection; etc.—essentially in-kind aid. States including Texas, North Carolina, Florida, and Illinois vied for four or five films a year, and for the most part the incentives provided were indirect and limited, rooted in community- and state-image marketing, and motivated primarily by a desire to increase exposure among employers and tourists. Most states and some cities still offer a variety of these incentives.

Beginning in the 1990s, tax breaks were added to these incentives, exempting producers from state or local taxes they would otherwise owe, usually sales and use taxes on the rental of equipment or the purchase of goods and services in that jurisdiction, or on hotel accommodations. Still, until the late 1990s, tax-supported services and forgiveness of taxes owed were the only relationship between the tax powers of the state and production incentives. States and cities were marketing their differences rather than competing head-on based on cost. Their programs emphasized the differences in the services they provided production companies, and the unique appeal of the shooting locations they could offer filmmakers or program producers.

Labor cost was an issue in the minds of producers, but primarily with respect to marginal costs such as catering and transportation. With the exception of New York (and to a limited extent, Florida, Illinois, North Carolina, and Texas), the skilled labor needed to shoot a film or TV show was not available in state shooting locations. Key members of the production crew were hired from Los Angeles or New York because of their particular skills and personal connections within the craft networks there. Although studio facilities existed in places such as Texas and North Carolina, they were fragile operations because there was only sufficient production work to sustain a small skilled workforce in the region. As a consequence, the Hollywood and New York media entertainment workforce was little affected by these "runaways."

However, as the cost of "talent" rose while major studio financing became harder to come by, producers sought new ways to reduce the most significant budget component they felt was still under their control—the cost of production crew, known as "below-the-line" labor—leading to a worldwide search for lower cost labor or public subsidies to offset labor costs.

The Canadians are widely credited (or blamed) for changing incentives in this direction when in 1997, the national government was persuaded that they could leverage the economic benefit from decades of government investment in their film and (especially) television production industry and its workforce by attracting more "service" production for foreign (almost exclusively U.S.) producers through a Film or Video Production Services Tax Credit (PSTC). One by one, Canadian provincial governments adopted additional, similar provisions over the next two years, and the credit percentages at both the national and provincial level were raised in a second round from 2004-2006. (Ontario made its late-2004 increase in the OPSTC retroactive to October 1997 when the national PSTC program began—a questionable investment strategy when the purported goal is to lure *new* productions.)

These instruments and their stepchildren in the United States provide cost reimbursements to producers via their tax filings. Canada concentrated on the biggest cost factor in production apart from "talent" and offered recovery of a percentage of the cost of Canadian (or in the case of provincial credits, in-province) crew. These credits are fully "refundable," so if the amount of their credit exceeds producers' actual tax obligations, they can file for a refund of the balance on their tax return for that year (or in some U.S. states, over several years).

To "keep up with Canada," U.S. states and an array of nations were persuaded by the Motion Picture Association of America (MPAA) and state lobbyists for entertainment industry firms and unions to follow suit, and more states began to offer labor-cost or wage-oriented credit programs for producers. Tax credits or refundable credits that permit producers to file for recovery of a percentage of various kinds of in-jurisdiction production expenditures and rebate programs that are outside of the tax filing process altogether soon followed (CEIDR 2006). Although initially reluctant, U.S. states became increasingly aggressive in bidding against one another for film and television productions through cost reduction opportunities and eventually, financing offers. By 2009, over forty U.S. states were offering tax-based incentives or rebates to film or television producers.

The most recent developments "up the ante" with direct subsidies to attract producers by providing a portion of the financing needed to produce the film or TV product. To meet the new demand for upfront financing, New Mexico instituted a program of interest-free loans to producers of approved projects in exchange for participation in the proceeds.

New Jersey and Vermont began offering loan guarantees. Starting with Louisiana, states including Connecticut, Massachusetts, and Michigan have taken the route of making their investment tax credits or tax credits on production costs "transferable" (that is, saleable). Producers or project investors can secure eligibility for a tax credit of an authorized amount in advance of production, and then sell that credit to any party that needs it to reduce their tax liability in that state. The buyers of these tax credits are typically individuals or corporations with no connection to the media entertainment industry, but with significant state tax liabilities. The production companies obtain upfront cash in return for selling tax credits that, in many cases, exceed what they could use. The buyers procure those tax credits at a discount, for example eighty cents on the dollar, thereby effectively decreasing that amount of their tax bill by 20 percent. The state loses 100 percent of the credit amount in revenue. In some states (e.g., Louisiana and Massachusetts), the state government itself will buy back its own credit at a discount, in effect turning a tax credit into a grant.

As the nature of production incentives changed, so did the rationale for them. Discussion of the need to lure film, television, and commercial productions shifted from the old emphasis on business climate and tourism to a new emphasis on economic development and job creation, and increasingly, film offices allied with the economic development departments of governments.

State subsidy programs have consequences for state tax revenues, but also raise broader questions about the role of public investment in risky private sector projects. An economic impact study of film incentives by the City and County of San Francisco (Office of Economic Analysis, City and County of San Francisco 2006) suggests that subsidies distort the investment market and encourage "rent-seeking behavior" on the part of producers. The authors point out the difficulty of disentangling which producers actually choose locations on the basis of a subsidy from those who change the production itself to tap the subsidy in one location or another:

> We may also observe local filmmakers morphing their projects from other formats into ones that qualify them for the Rebate Program so as to reap the benefits of this new program—this effect is known as "rent-seeking behavior." Evidence of this behavior can be found in Los Angeles' and in New York City's subsidies to the film industry. The increased local film activity attributed to the local tax credit programs are overstated, in that we cannot establish if such film companies were going to shoot in the absence of local subsidies or not. Of course, if you survey them, they only have reason to reveal that the incentives are essential for them to film—stating otherwise only diminishes their chances of getting something for nothing. Therefore, it is likely the case that the effect of rebate or credit programs on the level of filming activity will always be overstated. (Office of Economic Analysis, City and County of San Francisco 2006, 5)

These market-distorting and high-risk uses of public monies depend on the continued enthusiasm of taxpayers for underwriting the production of movies, TV shows, and commercials, and increasingly subsidy legislation contains a requirement that its efficacy be evaluated. Evaluations may seek to gauge the tax consequences versus opportunity costs, measure the net economic benefit, and shape the form and limits of subsidy programs. In the next section, we look at the results of some impartial assessments from policy analysts and the few studies that have been done in the United States to assess the efficacy of state subsidy programs.[6]

Assessing the Economic Impact of Subsidy Programs

Because state legislatures have increased requirements for evaluation of the economic impact of production subsidies, state-level government policy organizations have begun producing reports assessing the impact of subsidies on tax revenues, job creation, tourism, and the potential for the development of a new, sustainable industry that will diversify the state's economy, produce large numbers of highly paid jobs, and increase tax revenues long term. Although the data to analyze the impact of state investments is still sparse, there are enough analyses to provide a broad picture of the fiscal implications of state subsidy programs, and to examine the assumptions used to calculate economic impact in terms of direct or indirect job creation and tourism. Analyses by city and county governments also contribute to the picture of the medium-term costs and benefits of subsidies to the media industry. Because it requires a long-term perspective and an institutional analysis, much less has been done to evaluate the potential for the development of sustainable film and television industries in states providing subsidies to producers looking for film financing.

Assessments of the Fiscal Implications of Film and Media Subsidy Programs

The overwhelming majority of fiscal impact analyses of film and TV subsidy programs conclude that the subsidies have a negative impact on state revenues, particularly if they take the form of saleable tax credits.

The tax implications of the 2008 legislation passed by the State of Michigan, for example, have been assessed by the State Senate Fiscal Agency. In a briefing to the State Senate, the director of that agency described the program as "more like a grant than a tax break because it provides taxpayer-funded checks to producers making movies in the state" (Luke 2008). The incentive program is anticipated to cost $127 million in the 2008 fiscal year, only $10 million of which will be offset by income and sales tax receipts.

The State of Rhode Island Department of Revenue calculated that for every dollar invested in motion picture production tax credits, the state earns back $.28 from direct economic investment (expenditures made in conjunction with the projects). Possibly more important, they calculated that the multiplier needed for the state to break even on those credits was 3.57; every dollar spent by a production company in the state must generate $3.57 in additional expenditures for the state to recoup the tax funds expended to finance production in the state (Rhode Island Department of Revenue 2008). Since a generous multiplier is two, the implication is that the Rhode Island tax incentives have to generate extraordinary purchases and job creation to make back the tax money lost in financing entertainment media productions.

A Connecticut study of their 2007 incentive program showed a loss of $14.5 million in state revenues. The report notes:

> For every dollar spent on the tax credit, the state receives $0.08 back in additional revenue. This will have a small favorable fiscal impact only if the state government pays for the film tax credit by reducing spending. The state will not receive enough additional revenue from increased economic activity to pay for the estimated $16.5 million in tax credits applied for in 2007. (Connecticut Department of Community and Economic Development 2008, 39)

And, in another analysis of the fiscal impact of tax incentives to draw media producers:

> When Wisconsin's incentive bill was proposed, a state Department of Revenue report suggested the net fiscal impact was ultimately "indeterminate." But it calculated a hypothetical example of a production with $10 million in expenditures, wages of $50,000 for 100 employees and 50 percent of expenditures subject to sales and use taxes (and thus rebates) and concluded that the state would likely see a net loss in revenue. (Cobb 2006)

A highly critical assessment of the oldest transferable tax credit program was made by Greg Albrecht, Louisiana's chief economist. In a 2005 report, Albrecht found that:

> Tax credits generated by the film projects are real reductions to existing tax liabilities. While the credits are generated by economic activity that might not occur in the state in the absence of the credits, the credits are not applied against tax liabilities that might be directly associated with that new economic activity. The credits are sold to Louisiana taxpayers who have existing tax liabilities unrelated to the film production economic activity that generated the credits. The film producers are able to reduce their cost contributions to the projects, making Louisiana an attractive place to shoot movies, while the State's tax revenues are reduced by the amount of the credits taken by taxpayers who have purchased them from the production firms. (Albrecht 2005, 1)

Albrecht's fiscal analysis shows that once credits begin to be realized, (Louisiana) state tax credits exceed state revenue receipts. State revenue gains from stimulated economic activity settle to about 16 to 18 percent of state tax credit costs (Albrecht 2005, 3).

There are also a few analysts outside state government who have examined the costs and benefits of tax credits to subsidize film and television production. In assessing how fiscal impact is treated, these outside analysts raise a set of issues that are generally ignored in the state fiscal impact studies.

For example, they note the absence of any analysis of the opportunity costs of supporting nonresident film and video producers. They ask whether these uncollected tax revenues and public outlays could be spent in other ways that would produce stronger and more sustainable economic benefits for the state (Cobb 2006; Popp and Peach 2008; Saas 2006).

Another question raised from outside the state context concerns whether subsidies are necessary to attract production, and at what scale. These analysts note that state subsidies can result in "tax windfalls" to some projects because the subsidies are granted *after* the decision has been made to locate production in that state, and thus are underwriting productions that could have been obtained without the subsidy.

A related "windfall" question is whether a subsidy is larger than necessary to attract production. (Saas 2006), for example, notes that Connecticut offers tax credits of up to 30 percent of qualified production expenses. That amounts to $3 million of tax relief on a $10 million film budget, far more than the taxes generated by a typical project of this magnitude. Even when the producer has reduced their tax liability to zero, the unused tax credits can be sold (in Connecticut, Louisiana, Massachusetts, Michigan, and Rhode Island, for example) to nonproduction firms, further reducing total revenues of the state. In some states, there is no requirement that the cash raised by selling tax credits be used to foster economic development in the state issuing the credits. The film company can, in fact, use the cash to produce a future film or television program in a different state.

The question of who benefits from the subsidies was also raised in the discussion of a California State Senate Bill (2007 California State Senate Bill 740) that proposed subsidies to independent producers who carry out production in California. In assessing the implications of these proposed subsidies, the bill's opponents noted that the subsidies could influence the financing package provided by the conglomerate distributing the film product. This is already the case. Conglomerates agree to distribute a film or television product on the condition that the production is located in one state or another, so as to maximize the public financing available for the project. They use their own accountants or consultants (such as Entertainment Partners) to analyze the economic benefits of shooting in one state or another, and sometimes require script rewriting to locate the story in the most economically advantageous location. In some cases, this means one city "doubles" for another. Toronto, for example, is frequently used as a double for New York (as in *The Incredible Hulk*) or Chicago (as in the musical film *Chicago*).

A final concern raised about the fiscal impact of state subsidies has to do with the equity of expenditures and returns. Almost all expenditures associated with film and television productions are spent in the largest cities in the state offering the subsidies. In turn, those cities reap the vast majority of any benefits from indirect expenditures. Yet it is the residents of the state as a whole who are responsible for balancing the state budget, so in effect, many residents are donating their tax monies to benefit a part of the state in which they do not live (Fisher 2007).

In general, analysts of the fiscal impact of tax-based media production subsidies conclude that they have a negative impact on the state budget, and that they can be justified only to the extent that they more broadly impact job creation in the short term and create a high-wage, sustainable industry, benefitting the state economy in the long term.

Assessments of Direct and Indirect Job Creation

Although fiscal analyses show a negative impact on state revenues from tax-based subsidies to film and television producers, economic impact evaluations add an analysis of direct and indirect job impacts. Fiscal analyses have more access to real numbers to calculate revenue flows, but analyses of job impacts rely on assumptions about what kinds of expenditures may be made by producers shooting in the state. Although information that could make these estimates more reliable exists in production budgets, detailed expenditure information is rarely made available for independent analysis.

Whenever money comes into a state from external sources, it always produces some expenditures and job impact, so inherently the economic impact results are always positive. The two most important estimates in models of broader economic impact on a state economy pertain to: (1) how many state residents were employed by productions shooting in the state, and (2) what scale and type of purchases were made by those productions in the state. These form the basis for estimates of multiplier effects and of jobs derived from state subsidies. To understand whether the jobs and expenditures produced by subsidies warrant the outlay of tax money or taxes foregone, an economic impact analysis has to be combined with an analysis of return on investment. These kinds of analyses are often difficult to interpret because they rely on accurate information about the workforce and production company expenditures. Assumptions frequently "stand in" for data that is missing or not available to those preparing the impact analysis, and those assumptions can vary significantly from one study to another.

A 2008 report by the Department of Economic and Community Development (DECD) of the State of Connecticut, for example, estimates that 395 full-time equivalent jobs were created by the thirteen productions that filed for a tax credit between July 1, 2006 and September 30, 2007, and that $20.7 million in new Real Gross State Product was created by their production expenditures. Yet the report does not provide any explanation of the origin of either of these claims. In fact, the report notes that:

> No data was available on where production company employees lived. For those workers residing outside the state, their income represents "leakage" from the state in the REMI model. Leakages are income paid out that is not recycled into new sales for Connecticut businesses. (Connecticut Department of Economic and Community Development 2008, 39)

The report appears to assume that only "above-the-line" personnel or "talent" (actors, directors, writers) were not residents of the state. Since Connecticut is next door to New York State and the report stipulates that the state is relying on New York resources, presumably including its "below-the-line" production workforce, this assumption is open to question. Anecdotal information in press reports on the impact of Connecticut's subsidies indicates that at least some production shoots in Connecticut are taking place in the suburban areas adjacent to Westchester County in New York, and have moved from that county across the border to access the Connecticut credit (Foderaro 2008). When a day's shooting wraps, crews can easily drive home to their residences in New York to spend their salaries.

The Connecticut DECD report also assumes that a significant number (unspecified) of "above-the-line" people working on each production were visitors to the state and made expenditures on hotels and meals equivalent to those of tourists. Again, if Connecticut is relying on New York talent, it is as possible to make the counter assumption that directors, writers, and actors went home to New York at the end of the shooting day.

In both cases, what would be needed to accurately measure impact is an assessment of how representative the thirteen projects are of the broader universe of productions attracted to Connecticut *because* of its subsidy program, and detailed information on the budgets of the thirteen productions and the origins of their casts and crews. As the author of the DECD study indicates, in the absence of such information, estimates of job impact are tentative at best.

A 2006 Economics Research Associates (ERA) report for the Louisiana Economic Development Office (Economics Research Associates 2006) underscores other ambiguities in attempts to determine the economic impact of subsidy programs. It also illustrates how statistical information can be used to present a picture of industry growth when, examined objectively, the change is modest or cannot be determined. For example, Bureau of Labor Statistics (BLS) data is used to calculate growth in industry employment in Louisiana, as it is in reports from other states. The most commonly used BLS data is collected from employers at one point in time, on workers then employed in the state in a given industry. Given the project nature of production in this industry, point-in-time data cannot give a reliable indication of full-time, full-year employment. The point-in-time employment data used in the ERA report shows a 130 percent increase in employment in Louisiana from 2001 to 2005, and a 31 percent increase in total wages. What is underplayed is the scale: these are increases on an extremely small base (1,177 employees in 2001), and that the 2005 total (2,695) is miniscule compared to that in the industry center, Los Angeles, which showed growth in employment of 3.7 percent over the same period . . . but grew to over 154,000.

Again, there is no information about where these employees live. While they may be counted in Louisiana when they are shooting a film or television pilot there, they may be returning to homes in Los Angeles or New York or Florida or North Carolina to spend their wages (and pay some of their taxes) that the ERA model imputes are part of the "multiplier effect" benefitting the residents of Louisiana in exchange for their investment in media subsidies.

In addition, to the extent that productions do employ local crew, production work in low-wage, right-to-work states may be compensated very differently than BLS national data on occupations in this industry. Indeed, the wage differential between Louisiana and California is part of the appeal to producers, given the pressure to lower labor costs as well as to find new capital to finance their projects. A study examining the rationale behind Massachusetts' tax subsidy program notes, regarding jobs produced in New Mexico and Louisiana, that:

> . . . while these states were able to add production jobs, they did so at wage rates that were considerably lower than those paid in Massachusetts. For three out of the four years between 2001 and 2004, average annual pay for motion picture production employees in Louisiana and New Mexico ranged between 35 and 60 percent of the pay levels that prevailed in the sector in Massachusetts. Lower annual pay could be caused by two factors—lower daily wages or the more sporadic, shorter-term nature of motion picture production employment in Louisiana and New Mexico. (Laubacher 2006, 25)

As these studies of economic impact illustrate, one of the problems in determining the jobs created by film production lies in the project nature of work in the industry (Christopherson 2002). The stable jobs in the media industries are located overwhelmingly in the major industry centers—Los Angeles and New York—and are in management or business services (entertainment lawyers or equipment rental company employees, for example). The people actually engaged in producing entertainment media products work project-to-project and are rarely employed full time for an entire year. Thus, it is difficult to calculate "jobs," or whether they are full-time or part-time, or even what portion of time film production workers are employed during the year.

These issues in accounting for whether jobs are actually created, as distinct from work, may account for Louisiana's lackluster economic gains from its investment. The multiplier for Louisiana's investment is only 1.87 (Economics Research Associates 2006), whereas in New York the multiplier for direct, indirect, and induced employment is 3.1, one of the highest of all industries in the state (Christopherson et al. 2006). New York's high multiplier is a consequence of the depth and the breadth of its industry presence. New York City can capture a greater portion of ancillary expenditures made during the course of shooting because it has the full range of facilities and businesses that serve the industry. So, while subsidies may be credited with creating work associated with production shooting in Louisiana, most of the large expenditures for pre- and postproduction activities (financing, script preparation, editing, marketing, etc.) do not occur in Louisiana and do not generate economic activity. They instead generate economic activity in the industry's headquarters location: Los Angeles.

Given these difficulties in estimating job creation in states attracting film and television production through subsidies, U.S. Federal Reserve Bank analyses conclude that there is little information to assess the impact of production tax credits (Cobb 2006; Saas 2006).

Adding the Tourism Factor

States have recently expanded the rationale for estimating the economic impact of film and television production subsidies by examining their impact on tourism. For example, a significant part of the indirect impact attributed to the film and television subsidy program in New Mexico comes from its purported impact on tourism (Ernst & Young 2009a).[7] Tourism impact is also raised in justifying the expansion of the New York subsidy program (Ernst & Young 2009b).

The addition of assessments of tourism is an interesting development because it harkens back to the original rationale for providing services to film companies. Two studies of entertainment media induced tourism attest to the attraction of shooting locations to visitors (Riley, Baker, and Van Doren 1998; Tooke and Baker 1996).

The most lucrative tourist destination sites are those created in association with studio facilities. Orlando, Florida draws tourists to recreations of motion picture sets, including those based on animated films produced by major distributors such as Disney, Universal, and MGM. These tourist destinations serve an additional role—marketing the distributor brand. On a smaller scale, tourists may be attracted to the natural scenery they have seen on screen (a significant draw to New Mexico), or to the sites of exciting sequences from films or TV shows. Overall, shooting sites for television series are more likely to attract visitors because the sites are seen repeatedly by viewers and become identified with stories and characters they identify with (Riley, Baker, and Van Doren 1998).

However, the economic impact of these attractions is difficult to calculate because each site is different. Sites that are far from cities and accommodations may occasion a visit, but the local economy derives few if any expenditures, particularly if the visits are seasonal. Sites in already established tourist destinations, such as Boston or New York City or Los Angeles, are visited as part of a broader itinerary, and it is difficult to parse their specific impact on tourism expenditures in those locations. Since a visit to a media shooting site may be interchangeable with another tourism experience such as a visit to a street fair or community festival, it is difficult to attribute specific economic benefits to this category of tourist experience.

Finally, as the New Mexico survey of potential visitors indicates, these entertainment media related sites are only a minor reason for visiting the State. In the New Mexico study, only 1.4 percent of their sample of actual and potential visitors to New Mexico indicated that awareness of films shot in New Mexico had a significant influence on their travel decision, while 11.6 percent said it had some influence (New Mexico Tourism Office 2008). Since the vast majority of visitors to New Mexico perceive a media shoot site as one activity on a "list of things to see," it is difficult to make a direct link between film and television production subsidies and increased tourism expenditures. While shoot sites may increase the "list of things to see," they do not drive the decision to visit the state or determine the length of stay except for a fraction of the tourist population.

What Does an Examination of Media Entertainment Subsidies Tell Us About How Planners Should Evaluate Economic Development Incentives?

Economic development policy makers, news reporters, and the general public are frequently confronted with a bewildering array of conflicting information when they attempt to make rational choices about public expenditures and their effects. The debate in State Houses across the United States about whether to support subsidies to film and television producers—and by extension, media entertainment conglomerates—is typical, involving dueling studies of the return on investment and the economic impact that can be expected from such incentives. Studies done by State officials, including legislative analysts and departments of revenue, all indicate a poor return on investment. In response to these fiscal analyses, industry supporters have paid for and promoted counter-studies that justify tax subsidies on the basis that broader impacts benefitting the state economy are stimulated by the subsidies. In at least two cases—New York and New Mexico—these counter-studies were carried out by Ernst & Young, whose lobbying arm is employed by the MPAA.[8] The MPAA and its international partner, the Motion Picture Association, actively promote tax-supported incentives across states and nations (Litvak and Litvak 2009). The MPAA has an office of state legislative affairs and a vice president whose role is to encourage subsidy programs in U.S. states.

Differences in focus, in the assumptions underlying the analysis, in the data used, and in the time periods analyzed, combine to produce studies that reach very different conclusions.

Regarding the time period chosen for analysis, for example, subsidies may attract six productions of various types one year and none the next. In the case of the competing New Mexico studies, the choice of year made a 29 percent difference in expenditures attributed to incentives (Popp and Peach 2009). Ideally, to accurately determine the impact of an incentive, studies should use data from multiple years, averaging the number of inputs (in this case, productions).

There are also significant differences among studies in what is included in incentive/subsidy-related activity. The studies used to make arguments in favor of state tax subsidies typically use an expansive definition of what economic activity can be attributed to production subsidies.

In New York, for example, an Ernst & Young study (Ernst & Young 2009b, 6) assumed that the fiscal and economic impacts of the New York State film credit included the impacts of (1) credit eligible film productions, (2) non-credit eligible productions, and (3) retained postproduction activity—in short, they attributed *all* in-state production to the subsidy program, whether the projects received a production subsidy or not.

In New Mexico, both an Arrowhead Center study (Popp and Peach 2008) and an Ernst & Young study (Ernst &

Young 2009a) generously assumed that all projects that received a subsidy would not have occurred without them. But while the Arrowhead Center included only their qualified expenditures (which include nonresident actors who provide their services through a personal service corporation) in calculating the fiscal and economic impact of the subsidy, Ernst & Young included *all* in-state expenditures by subsidized film and television projects (including director and producer compensation) in their calculations. In estimating job impacts, the Arrowhead model attributed 20.3 percent of total expenditures to labor; Ernst & Young, 72 percent of production costs. Ernst & Young ascribed capital expenditures and tourism expenditures to the subsidy program, thereby adding 18 percent and 36.5 percent respectively to the total tax revenue impact. (Tourism was factored into Ernst & Young's New Mexico model by inferring from survey data the percent increase in tourist trips "due to visitors familiarity with films produced in New Mexico" [4.3 percent] and the percent increase in the length of the average tourist stay "due to interest in seeing locations where movies were filmed" [1.2 percent], then *adding* those two percentages together and applying the resulting 5.5 percent to the dollar figures from a Travel Association of America study on the direct and indirect economic impact of domestic travel in the state.) As a result, the Arrowhead study found a return of 14.4 cents for each dollar of state expenditure on the subsidy program; Ernst & Young found that the return to the state was ninety-four cents, plus another fifty-six cents in local tax revenue, for a positive tax impact combined of $1.50 on the dollar.

These examples suggest the difficulty in comparing the results of competing studies. Reporters and the public tend to accept the numbers presented in the study results without looking carefully at the methods used to achieve them, and cite the most recently released study as presenting accurate and compelling evidence.

Planners and policy makers should not make the same mistake. Although film subsidies may be at the extreme end of economic development incentives, the debate over them makes a strong argument for critical examination of the assumptions and methods employed, and the underlying interests behind, the impact determination process.

Build It and They Will Come? The Question of Sustainability

In the new economic development environment, regional growth coalitions (and their media industry allies) argue that, in a global marketplace in which all regions are competing for industries with good jobs, public capital plays a critical role in creating the conditions through which occasional film and television projects will be transformed into a stable and lucrative industry located in the jurisdiction that provides that capital.

For example, film industry growth coalitions in states as diverse as Massachusetts, Louisiana, and South Carolina support extensive public investment, not only in subsidies to film and television projects, but also for film studio facilities. They predicate their support for these investments on the need to build an "industry cluster" in entertainment media. A bill voted down by the Massachusetts legislature would have provided tax credits worth up to 20 percent of the cost of sound stage construction (including offices and parking facilities), digital media or postproduction facilities (e.g., special effects houses), and the purchase or rental of equipment such as cameras, lighting, and computers. As with production credits, these credits would be transferable and could be sold to other businesses or wealthy individuals, thus lowering the state's total tax revenues (D'Amico 2008).

The scenario laid out by proponents of this economic development strategy follows well-worn "stage theory." First, industry projects will be lured to a region by significant direct financial subsidies, demonstrating its good business climate. Second, the region is charged with developing and maintaining an infrastructure, including capital facilities and a skilled labor force, to sustain industry presence. Third, with these investments, the regional industry eventually becomes self-sustaining and globally competitive, no longer requiring subsidies. While the reports that evaluate the economic impact of the tax-based subsidies for the film and television production industry echo this theory, they offer little information regarding how such an industry infrastructure is constructed. As with many stage theories, no actors (apart from the state) are identified as responsible for building the industry infrastructure, and there is no mechanism for moving the industry from one stage to another.

Studies of Los Angeles and New York indicate that the critical components that sustain their film and television production industry include:

1. The organizations that decide what projects to finance and at what scale, and where and how to distribute them—the decision makers in the industry.
2. Business services that provide expertise and the coordination to hold this project-oriented industry together. These include specialized attorneys, investment bankers, location scouts, and agents.
3. The myriad small businesses such as those in equipment rental or catering that provide input into the production process, but that require continuous trade from a sizable number of productions each year to survive. It is these businesses that capture expenditures by production companies that produce the multipliers assumed by economic impact models, and that create stable jobs in industry centers such as Los Angeles and New York.
4. Training and education programs that produce a continuous stream of talent and craft workers in highly

specialized fields such as cinematography or sound engineering.

5. Facilities, particularly studios, but also other production, rehearsal, and sound-recording spaces. Again, these spaces have to be continuously in use to remain viable.
6. The tradeshows, film festivals, and trade association and union programs that provide this industry with its analogy to "research and development." (Christopherson et al. 2006; MacDonald and Wasko 2008; Scott 2005).

In New York and Los Angeles, this infrastructure has taken over one hundred years to build, and requires considerable ongoing public investment to maintain. Without this infrastructure, a state that subsidizes footloose film or TV production projects has little chance of building a sustainable local industry. This is demonstrated by the continuing difficulty of even those states (other than New York and California) that have been trying to establish a viable film and television production industry for the longest time—North Carolina, Texas, Florida—in maintaining the crew depth needed to support more than a few productions at a time. The availability of skilled below-the-line labor is the crucial building block in establishing a local industry, and the persistent problem with bench strength in these states is a bad omen for all the other states now vying to get into the game through providing subsidies to build a production *industry*. Anecdotal evidence suggests that crew in New York and Los Angeles can sustain (at least somewhat) regular employment locally; crew in other places have to travel to wherever the projects are, or supplement their income with other kinds of work. The adage that to "make it" in this business, you have to move to New York or Los Angeles, still seems largely true.

In addition, if an industry of a size sufficient to capture a continuous production stream develops, it also produces negative externalities at the local scale, that is, costs to the city and state. Los Angeles communities are famous for *opposing* shooting on their streets because it causes traffic congestion, noise, and property destruction. To enable location shooting on the street, the city and the state must maintain bureaus to mollify and financially compensate communities, and specialized police details to minimize disruption.

Louisiana, which has been able to attract many productions via its subsidy program, would seem to be in the best position to build a labor force. Although there are indications of increased work in the state because of its incentive programs, there are questions about whether the work lives up to its high-wage reputation (Laubacher 2006), and how much of the labor employed in Louisiana films migrates temporarily to the state from other states including North Carolina, Florida, and Texas as well as California and New York.

Despite Louisiana's aggressive subsidies since 2002, its most recent economic development report (Economics Research Associates 2006) indicates that although the state has been successful in drawing in production *activity* with subsidies, it does not have the infrastructure to support a film and television *industry* that could capture more expenditures in the state without significant subsidies. The authors also note that while the below-the-line labor force has grown with the subsidy programs, there is little capacity for workforce training of industry craft workers, and few creative workers in directing, writing, or acting. Their analysis indicates that the projects produced in Louisiana are from footloose, low-budget producers:

> As of now, the dramatic increase in production industry is almost entirely for productions conceived and funded by establishments outside of the state. A homegrown, local film market does not currently exist. (Economics Research Associates 2006, 3)

In Connecticut, the economic development office report acknowledges that film or television shoots "accounted for 97% of the film expenditures in the state"; expenditures were not in the more stable and lucrative preproduction and postproduction activities. According to the DECD study:

> These findings suggest that the tax credit has attracted the more "footloose" filming activities rather than the industry's underlying or fundamental activities. (Connecticut Department of Economic and Community Development 2008, 26)

Using tax incentives, Connecticut has attracted Blue Sky Studios, a major digital design firm, from White Plains, NY to Greenwich, CT, ten miles away. However, the economic benefit to Connecticut from this investment is questionable, given that the employees will likely continue to live in New York, and to make most of their expenditures and pay some of their taxes there. The Chief Operating Officer of Blue Sky made this clear, adding that while his operation would move to Connecticut because of the tax credit, he would not. "I'm a born and bred New Yorker, and I live in New York" (Foderaro 2008).

In fact, one of the premises of the Connecticut subsidy program is that it will be able to utilize the distinct comparative advantages and significant industry base of its neighboring state, New York, but lure production to Connecticut through subsidies. This strategy suggests that Connecticut is dependent on the established infrastructure in New York. It is unlikely that all the crucial components listed above would be replicated in Connecticut, enabling it to compete with New York as an industry center, and in the absence of the infrastructure required to support an enduring industry, Connecticut is likely to remain primarily a favored outsourcing location for producers looking for subsidies to reduce their bottom line.[9]

What is more likely is that Connecticut's subsidies will draw off some location shooting that would have occurred in

New York by providing financing for film and television projects, some larger television and film projects will be drawn to Connecticut because of the generous incentives, and some Connecticut localities, especially those in the suburbs adjacent to New York, will benefit from local expenditures and sales tax revenues. As the DECD study contends:

> Though it is a source of competition for Connecticut film production, the proximity of New York also provides Connecticut film producers with a readily accessible pool of talent and nearby infrastructure able to fill deficiencies in Connecticut's film industry. New York's position of both competitor and complement to Connecticut's film industry makes it critical to understand the role of its film production tax incentive. (Department of Economic and Community Development 2008, 18)

Indeed, if building a sustainable industry is the ultimate goal and justification of tax-based subsidies, and economic *development* the driver of all this, why would a state that already *has* an established industry offer subsidies as well, and how are they being used? Since 2004, New York State and New York City have provided subsidies to film and television producers. In 2008, New York's state subsidies were raised to compete with nearby states offering generous subsidies, including Connecticut and Massachusetts (Cieply 2009). New York's subsidies are based on a different rationale than those of states without an industry infrastructure; they are rooted in the premise that subsidies combat competition from other states that could erode New York's comparative advantage.

Why Are Tax Subsidies Necessary to Sustain an Already Established Industry? The New York Case

New York is the second-largest center of employment in motion picture and television production in the United States and was the original home of the motion picture industry. Thus, the state already has the kind of established, sustainable industry that states like Louisiana and Michigan are seeking when they justify providing tax credits to producers, despite the negative tax impact. However, New York also participates in the subsidies game, though in a somewhat different way than those states attempting to "build an industry."

In 2004, New York began offering the Empire State Film Production Credit, a refundable credit against income or corporate franchise tax then in an amount equal to 10 percent of qualified expenses. The production must be partially filmed on a set, stage, or production facility within New York, and at least 75 percent of the set, stage, or production facility expenses for the production must be spent at the New York location. The credit also applies to other expenses incurred in New York, provided that 75 percent of the total shooting days are in the state and the production spends at least \$3 million at a New York set, stage, or production facility. Finally, the City of New York provides an additional 5 percent refundable credit if the production requirements above are met within the city's borders. In 2008, New York upped the state's 10 percent subsidy to 30 percent. It retained the requirement that production be carried out in "approved" facilities (studios), effectively favoring New York City, and productions within the city continue to receive an additional 5 percent credit. By early 2009, New York had exhausted the \$515 million allocated for its tax subsidies program (which was intended to last until 2013). Although industry advocates are asking for "permanent" subsidies, their cause is being hindered by the state's severe budget crisis. In the wake of this uncertain subsidy environment, television producers currently taking advantage of New York tax subsidies have been negotiating with film offices in Toronto and Vancouver to move productions to Canada (Morton 2009).

To understand the impetus behind New York's subsidy programs and the form they take, it is useful to review what has happened to New York's film and television industries under the general concentration of the media industry since the 1980s.

New York's Comparative Advantage

New York has been affected significantly by the consolidation of the media industries into a combined television/film industry (Meehan 2008; Schatz 2008). New York City is the historic center of broadcast television, which largely has been acquired by major media firms headquartered in Los Angeles. As those firms reduced employment in the course of consolidation, New York lost corporate broadcast network employment. As a result, a higher portion of people employed in the media entertainment industry in New York is now self-employed and working project to project. This is in keeping with a national trend. Between 2002 and 2006, individuals reporting themselves as self-employed in the Motion Pictures and Video Production Industry (as reported by federal income tax filings) grew by 28.4 percent (Christopherson 2008, 83).

At the same time, building on its history in production for television, the city has experienced growth in production for cable networks. There is also greater demand in the current media market for documentary production, which combines New York's industry specializations in television and the information and education sectors.

In addition to its strengths in television production, New York City has other distinctive advantages. It is home to a high proportion of nation's creative talent. For example, half of the directors participating in the Sundance Festival, the preeminent showcase for independent filmmakers, are located in New York. New York is a center for acting talent because of the multiple employment opportunities for actors—in legitimate theater, daytime soap operas, and commercials as well as film, cable, and broadcast television. By virtue of its long history and current strengths in all these production sectors, New York has an abundance of highly qualified crew in all of the specialty occupations required for media production. Its creative and craft workforces are constantly replenished through local educational and training facilities that are among the top rated in the United States, and New York is also home to the full panoply of business services, facilities, and sources of financing and professional expertise that support an established media industry.

New York's Approach to Subsidies

Unions and studio owners, supported by the MPAA and local and state economic development officials, developed the initial subsidy package in response to what they perceived as a loss of the most stable and lucrative portion of industry production. From the late 1990s to 2004, the pattern of production (as tracked by the City of New York Mayor's Office of Film and Television) changed, with a downturn in the number of location shooting days. Industry experts alleged that while producers were still using New York as a setting for productions, they were visiting the city only for a short time to take "beauty shots" of recognizable landmarks, rather than actually producing in the city.

Unions were particularly active in promoting the first wave of subsidies because they felt that the jobs being lost in New York were the "good jobs"—those still controlled by union contracts in bigger, more lucrative, and (in the case of television) longer-term projects. Medium-budget (approximately \$20 to \$50 million) feature films and high value, scripted television series are at the core of this "good jobs" category. They were joined by the studio owners, who wanted to make sure that the subsidies emphasized facility use by their most lucrative and long-term clients—major film productions, and particularly television series. In fact, one-quarter of New York's original \$125 million in state subsidies went to television series already producing in New York studios, and particularly to NBC, owned by General Electric. In one year, subsidy claims by local producers totally consumed tax funds that were intended to promote new production in New York over four to five years (Hakim 2006).

The 2008 expansion of the New York State film credits was predicated on a loss of jobs to competing states such as Connecticut. Location shooting days in New York had risen in 2005-2006 but dropped again in 2007, though only marginally as compared with the steep drop in Los Angeles from 2004-2007. While the decline in shooting days in Los Angeles appears to indicate that subsidies in other states are drawing producers away from California (though there are numerous other factors), the purported competition between New York and Connecticut may be more concocted than real. The Connecticut subsidies essentially expand the New York regional advantage in film and television production by providing generous financing to producers who can utilize New York City's established industry base. The Connecticut subsidies, and perhaps even the equally generous Massachusetts subsidies, arguably will provide *more* jobs for the New York workforce, since they typically attract production that cannot be staffed by the workforce available locally.

The original tax incentives and the recent expansion both attempt to attract productions within a fairly narrow band and protect the interests of the core industry in New York City. They do not address ways in which to build New York's comparative advantage based in its distinctive strengths in directing, acting, independent film, or low-cost television production—all areas in which the city's media economy is expanding.

Thus, New York is pursuing a subsidy strategy that reflects its established position in the U.S. media production economy, designed by its most powerful players to retain their hold on those segments of the industry that have been most important to their livelihoods and business interests in the past, through facilities-oriented subsidies to attract and retain television production and a share of the few mid-budget feature films still being produced. This strategy, however, does little to promote New York's distinctive advantages in shaping the future of its media economy, despite evidence that building on a region's distinctive strengths is a more successful long-term approach (Scott 2004). It also has the disadvantages associated with all tax-based subsidy programs—inequities in the allocation of cost and benefit, and inadequate consideration of opportunity costs.

What Do Film Incentives Imply for Economic Development Policy Making?

Since the transformation of production incentives into tax subsidies began in the late 1990s, there has been a steady progress toward programs that give cash-in-hand to producers. These programs—initiated in Louisiana and emulated in diverse other states including Connecticut, Michigan, and Massachusetts—finance productions via transferable tax credits to entice producers to locate production in the state. Producers are ever more responsible for obtaining the financing for their productions, even when they have distribution deals from the major studios and their subsidiaries. The location decision is preeminently an economic decision; it is only secondarily a decision about where best to tell a story via the distinctive look of a particular place. In some cases, producers may be *told* where to shoot the film or television program as a stipulation of their distribution deal, based on where the richest and least encumbered tax-funded subsidies are to be had.

What this tells us is that producers are not solely in charge of the location decision. The location decision-making process is driven by those who market and distribute media products: the major media conglomerates. As a consequence, when states undertake subsidy programs, they are not subsidizing the movie or the moviemaker but a major transnational firm such as the News Corporation or General Electric. It is *their* bottom lines that are padded with public money from Michigan or Connecticut. Thus, these public subsidies raise serious questions about market distortion.

Beyond their effect on markets, however, media subsidies also raise serious issues about governance and democratic accountability. In states and cities across the United States, public officials and analysts who are responsible for examining the performance and consequences of media subsidy programs have noted the difficulty of carrying out a thorough and independent evaluation of film incentives (D'Amico 2008; Litvak and Litvak 2009). They point to problems with transparency, and the influence of powerful interests in the decision-making process.

As a consequence, rigorous analyses of the broader economic impact of film subsidies have been carried out rarely, if ever. While ex ante models have been developed to predict impacts based on assumptions, national aggregate data, or estimates, there is little hard information available on the actual expenditures of productions on location or detailed production budgets. Detailed information about production company expenditures during the shooting phase is critical to a credible examination of the impact of subsidies on the economies of states offering tax incentives. This should include specifics on the people employed and the products or services purchased, where those people or products or services originated, how much time individual cast or crew members worked, how much they were paid, and where they reside (and spend their paychecks or pay taxes other than the state tax on that income).

Even as subsidy programs have proliferated, this vital information is rarely, if ever, made publicly available. As a consequence, there is scant analysis of the economic impact of subsidies based on real numbers. Thus, assertions of the efficacy of subsidy programs as an economic development tool remain speculation.

Second, while there is scant evidence regarding efficacy, studies by state fiscal officers provide direct evidence that these programs have a considerable negative impact on state revenues. Studies in Louisiana, Michigan, Rhode Island, and Connecticut all demonstrate that state residents are essentially providing grants to film and television producers to locate production in their state. In a period of fiscal austerity and declining state budgets, these allocations mean that other state activities necessary to economic development—investments in school construction, infrastructure repair, or job training, for example—will receive less funding. Since states operate under balanced budget rules, increasing (and in some cases, uncapped) tax-based investments in these economic development programs cannot be made without cuts to the state budget in other areas.

Third, there are serious equity concerns about who benefits and who pays for these subsidy programs. As we have already described, the benefit from any production tax credit or expenditure reimbursement program almost always accrues to major cities. However, since these subsidies produce a tax revenue deficit, all state residents absorb the cost. In the case of the program implemented in New York, the cost is less onerous in foregone state revenue because of its higher local "capture" of production expenditures plus those for pre- and postproduction aspects of most projects (generating a higher "multiplier" and more tax revenue), but the program is drawn up explicitly to benefit facilities in New York City.

Fourth, film-subsidy programs benefit one industry while leaving the tax burden to industries that are not subsidized. The proponents of film subsidies argue that these investments will eventually produce a sustainable high-wage industry because the workforce and firms indigenous to the state will learn by doing. If such a use of tax dollars is legitimate, others might ask why this approach isn't applied to them (Litvak and Litvak 2009). As one critic of the subsidy approach puts it:

> Under such an argument, virtually all industries would qualify for incentives, and if every industry is receiving a taxpayer subsidy, nobody is left to pay for necessary government services. (Cobb 2006)

Finally, the subsidies foster a race-to-the-bottom mentality in which states and regions continually up the ante in their fervor to "remain competitive"—competing, that is, by using public monies to subsidize this one industry. As one New York producer for The Walt Disney Company noted about the Connecticut's accelerating subsidies: "The good news is that Connecticut could spur the New York credit higher" (Foderaro 2008).

The case of the entertainment media industries demonstrates the difficulties involved in sorting out competing claims and evaluating economic impact. Ultimately, close questioning of those claims may drive policy reform requiring data transparency and substantiation of economic development benefit. Meanwhile, however, the worldwide taxpayer-funded production financing "gold rush" in entertainment media is still on.

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Notes

1. Culture and the arts, and now the "creative industries," are becoming tools for a wide variety of economic goals, including the revitalization of central business districts, job creation, community building, and skill development. A "creativity agenda" is becoming an organizing principle for urban economic development.
2. New Mexico's exposure in 2008 under its film tax-credit program was $49.4 million; its arts council funding totaled $2.25 million. Connecticut invested $16.5 million in tax revenues to support media production in 2007; support for the statewide Arts Council grew to $9.9 million. Massachusetts media tax credits were estimated at $31 million in 2007 while Massachusetts Arts Council funding was $12.3 million. These expenditures do not include public investment in major capital projects for arts institutions.
3. This study was derived from (1) a study of industry patterns that included forty interviews with directors, producers, leaders in both unions and guilds, and studio owners as well as analysis of proprietary data and publicly available data on industry production trends and employment (Christopherson et al. 2006); (2) a review of the progress of production incentive programs in all U.S. states and in Canada and its provinces, conducted in 2006 and selectively updated since; (3) additional interviews conducted in 2007, along with an analysis of changes in key occupations and self-employment from publicly available secondary data; (4) a review of the academic literature and industry sources on production tax subsidies nationwide; and (5) analysis of twenty-five evaluations of the production subsidy programs in Arizona, California, Connecticut, Florida, Louisiana, Maine, Massachusetts, Michigan, New Mexico, New York, Ohio, Rhode Island, South Carolina, and Wisconsin; for the cities of San Francisco and Seattle; by staff of the Federal Reserve Banks in Boston, Minneapolis, and Richmond and the National Governor's Association; and for the *Economic Development Journal* of the International Economic Development Council.
4. A regularly updated state-by-state overview of tax-based subsidies and other financial incentives currently offered to film/television/commercial productions is available on the Web site of Entertainment Partners of Los Angeles, California (http://www.entertainmentpartners.com/products_and_services/services/tax_incentives/us/).

   A copy of the latest *U.S. Incentives Guide* published quarterly by The Incentives Office of Santa Monica, California can be downloaded from the Publications section of their Web site (http://www.theincentivesoffice.com/).
5. Maltby (1998, 31) describes this period as one in which "the post-Paramount attitude of regarding each production as a one-off event had reached a point where none of the majors any longer possessed a recognizable identity either in its personnel or its product."
6. Early assessments of the economic benefits were conducted outside the United States. Two such assessments are the *Film and Television Industry Review* prepared for the Ministry of Economic Development of the Province of British Columbia, Canada, by InterVISTAS Consulting, Inc. (2005); and the *Review of the Large Budget Screen Production Grant (Phase I)* prepared for the Office of the Minister of Economic Development of New Zealand by Outcome Management Services (2005).
7. A New Mexico Tourism Office Study, which produced the estimates used by Ernst &Young, explicitly set out to demonstrate the positive impact of film incentives on tourism in the state, and measured economic impact based on a survey of people asking for information on the state as well as on a much smaller sample of actual visitors (New Mexico Tourism Office 2008).
8. See http://www.ey.com/global/Content.nsf/US/Tax_-_Services_-_Legislative_Services_Washington_Council_EY.
9. In some states initiating subsidy programs, access to local skilled labor is even more questionable. Michigan's film office notes that it has crew depth to service only two films at a time, and scant infrastructure (Bomey 2008).

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