

Introduction

In 1891, Thomas Edison and W. K. Laurie Dickson invented the Kinetoscope, the earliest ancestor of the modern motion picture. Competitive pressures soon induced Edison to alter the technology to project movies rather than show them to individual viewers, and the Edison Company introduced the Projectoscope in 1896. Repeated lawsuits against competitors over alleged patent infringements proved insufficient for Edison's ambitions; in 1908, the Edison Company joined with Biograph to form the Motion Picture Patents Company. This arrangement of interlocking agreements among studios, exhibitors, and Eastman Kodak (the primary supplier of film), however, only delayed the Edison Company's fate. Antitrust rulings against the Motion Picture Patents Company and superior movies out of California eventually forced the Edison Company to sell out in 1918.

Innovation, competition, and collusion... economics has *always* been the irreplaceable tool to study the motion picture industry.

In April 2003, the Weidenbaum Center on the Economy, Government, and Public Policy, in collaboration with the Department of Economics and the Department of Film and Media Studies (all of Washington University in St. Louis), presented *Entertainment Economics: The Movie*

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Industry. The first day of this conference was a public symposium with panels on digital technology, financing, and movie making. The second day was a scholars' conference with each of the following authors presenting research on his or her topic of expertise. This volume is the tangible product of that effort.

The six chapters that follow attempt to capture both the sequential nature of the industry and several of the different viewpoints of industry analysts. The fundamentals of the motion picture industry can be highly idiosyncratic, and the industry has consequently evolved in somewhat peculiar ways. Thus, each contributing author describes and explains particular aspects of the industry's institutional structure. The second task of each author is surveying the body of ongoing research. Several of the chapters include original findings. Each chapter concludes with potential areas of new research.

As one would expect, the various topics lend themselves to different approaches. Furthermore, each author's training and discipline amplify the uniqueness of each chapter. Political economy emphasizes institutions and a holistic perspective, economics assumes that the reality that we observe is an equilibrium of rational participants, and marketing strives to help business professionals improve their performances. What unifies these authors is the common belief that careful analysis of the motion picture industry is a worthwhile endeavor.

Janet Wasko begins the volume with "Critiquing Hollywood: The Political Economy of Motion Pictures." This overview considers approaches that are included within media or cinema studies but are not typically considered part of the neoclassical economic literature. But why has the political economy approach been applied less frequently to the movie industry than to other communications research? And to what extent do production decisions at the major studios reflect an oligopoly rather than competition?

The economic analysis of production continues with "Film Production in the Digital Age – What Do We Know about the Past and the

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Future?” by S. Abraham Ravid. He focuses his attention on two topics: competing explanations of movie profitability and the role of contracts for the talent. Even in the most artistic sector of the industry, a number of issues can be illuminated by economic analysis. Do movie stars increase movie profits, or do the stars successfully capture their contributions in higher pay? Does Hollywood make too many R-rated movies? And how do differing compensation structures influence which movies are produced and which actors star in them?

Harold L. Vogel explores the truths and fallacies of film accounting in “Movie Industry Accounting.” By clearly explaining the areas of bookkeeping that are common to the movie industry and other more standard businesses, he is able to pinpoint why the industry has received its (perhaps unfair) reputation for crooked numbers. For instance, which features of the industry cause the timing of production and marketing expenses to be less controversial? How has the evolution of accounting standards for the entertainment industry influenced the financing of movie production and distribution?

The movie is then shipped out for domestic theatrical distribution, with “Theatrical Release and the Launching of Motion Pictures” by Charles C. Moul and Steven M. Shugan. The issues of when to release a movie and how to capitalize on (or minimize the effect of) word of mouth are perhaps the most overtly strategic questions in the industry’s supply chain. What is the benefit of a summer or holiday release? How much of an impact do critics have on a movie’s box-office performance? And what are the impacts of a director and starring cast on admissions, on advertising, and on the number of exhibiting theaters?

Jehoshua Eliashberg examines issues arising in theatrical exhibition with “The Film Exhibition Business: Critical Issues, Practice, and Research.” The tasks of the multiplex operator have vastly increased as the number of screens within a single theater has expanded over the last twenty years. Of late, there have been additional concerns with the expansion and contraction of theaters over the last ten years. Is the domestic

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exhibition sector yet at a sustainable level of capacity, or is more shake-out on the way? How will technology and changing market factors affect how movies are shown? And how large is the threat to theatrical exhibition posed by digital piracy?

The ancillary markets of foreign markets and video (especially DVD) are considered in Charles B. Weinberg's "Profits out of the Picture: Research Issues and Revenue Sources Beyond the North American Box Office." The industry continues to adapt to the fact that revenue from videotapes and videodiscs now far surpasses revenue from theatrical releases. But which aspects of a movie's domestic theatrical release carry over to consumers' decisions in the video market? How does a studio balance the benefits of these carried-over effects with the potential for videos cannibalizing theatrical admissions when choosing when to release a video? Do these answers inform our understanding of the relationship between the domestic and foreign markets?

It is our collective hope that this volume will facilitate and guide new research on the movie industry. To this end, it is my pleasure to acknowledge the following persons for their support of this work: Steve Smith, Melinda Warren, Christine Moseley, and Gloria Lucy of the Weidenbaum Center; Jeff Smith and Lloyd Silverman of Washington University Film and Media Studies; Morgan Rose for his research and editorial assistance; Christopher Allard for his editorial assistance; and, lastly, Dee Rader, whose boundless energy fueled this endeavor from its beginning to this conclusion.

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Critiquing Hollywood: The Political Economy of Motion Pictures

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Historically, motion pictures have been analyzed from many different perspectives and approaches. The business of film is receiving much closer scrutiny these days, again from diverse viewpoints. Although the popular press has always been fascinated with the spectacle of Hollywood, more media attention seems to be devoted these days to the business of film making in publications such as *Entertainment Weekly* and television programs such as *Entertainment Tonight*. Of course, much of this coverage is prompted by the industry itself through the studios' extensive publicity and promotion operations.

On the other hand, film industry insiders have produced a wide range of literature that more rigorously discusses the business practices of commercial film making in the United States. Many are aimed at Hollywood wannabes (for instance, Levy 2000), while others are mostly anecdotal essays about the industry (for instance, most anything by Peter Bart). At one time, Squire (1983, 1992) was one of the few sources that provided useful inside information on how the industry worked as a business. More recently, however, a number of industry accountants and legal experts have offered books detailing the complex financial and legal arrangements that

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surround the production, distribution, and retailing of commercial films (for instance, Daniels et al. 1998; Moore 2000). In addition, financial and investment advisors regularly produce detailed analysis, useful even for those not interested in investing in the industry (for instance, Vogel 2001; Cones 1996).

Closely related to these sources are the recent studies by economists representing mostly neoclassical economic approaches and using econometric analysis. While typically aiming to explain or predict the success or failure of films in various markets, a wide range of such studies has been produced over the last decade or so, some by authors represented in this volume.

Meanwhile, even as film critics and cinema-studies scholars continue to produce seemingly endless studies of individual films, stars, genres, and styles, more attention has been devoted to Hollywood as a business over the past decade or so. (More discussion of this work follows.)

Political economy represents a distinctly different approach to the study of film yet has not received much recognition within cinema studies or by other film analysts. This chapter presents an overview of this approach, including its roots in classic political economy and the application of political economy in communications and media studies. Examples of the political economic studies of film are discussed, as well as future directions for this research tradition.

POLITICAL ECONOMY

The political economy of motion pictures is grounded in the general study of political economy, which draws on eighteenth-century Scottish enlightenment thinking and its critique in the nineteenth century. For Adam Smith, David Ricardo, and others, the study of economic issues was called *political economy* and was grounded in social theory. Further, political economy focused on the production, distribution, exchange, and consumption of wealth and the consequences for the welfare

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of individuals and society. More specifically, they studied one arrangement for the allocation of resources – they studied *capitalism* as a system of social production.

Classical political economy evolved as capitalism developed, adding Marx and Engels' historical materialism and class analysis in the nineteenth century, and emphasizing a radical critique of the evolving capitalist system through a moral stance in opposition to the unjust and inequitable characteristics of that system.

During the last half of the nineteenth century, however, there was a fundamental shift in the study of economic issues, as the focus changed from macro- to microanalysis. Emphasis was placed on individual rather than societal concerns, and the methods used came from the social sciences rather than from moral philosophy. These changes were represented in the basic shift in the name of the discipline – from *political economy* to *economics*.

Although neoclassical economics prevails today, political economy has survived in different forms. In communications studies, radical, critical, or Marxian political economy has been applied and has been recognized as a distinct tradition. In *The Political Economy of Communications*, Vincent Mosco has defined this version of political economy as “the study of the social relations, particularly power relations, that mutually constitute the production, distribution and consumption of resources” (Mosco 1996, p. 25). He explains that political economy is about survival and control, or how societies are organized to produce what is necessary to survive, and how order is maintained to meet societal goals. Mosco further delineates four central characteristics of critical political economy, which are helpful in understanding this approach:

1. *Social change and history.* Political economy continues the tradition of classic theorists, uncovering the dynamics of capitalism – its cyclical nature, the growth of monopoly capital, the state apparatus, and so forth.

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2. *Social totality*: Political economy is a holistic approach which, in concrete terms, explores the relationship among commodities, institutions, social relations, and hegemony, exploring the determination among these elements, although some elements are stressed more than others.
3. *Moral philosophy*: Critical political economy also follows the classical theorists' emphasis on moral philosophy, including not only analysis of the economic system but also discussion of the policy problems and moral issues that arise from it. For some contemporary scholars, this is the distinguishing characteristic of political economy.
4. *Praxis*: Finally, political economists attempt to transcend the distinction between research and policy, orienting their work towards actual social change and practice or, as Marx pointed out: "Philosophers have sought to understand the system, the point is to change it."

Mosco's model draws strongly on the work of British political economists Graham Murdock and Peter Golding, who distinguished critical political economy from mainstream economics: it is holistic, historical, centrally concerned with the balance between capitalist enterprise and public intervention, and "goes beyond technical issues of efficiency to engage with basic moral questions of justice, equity and the public good" (Golding and Murdock 1991).

These explanations set the stage and provide the grounding for applying political economy to the study of communications and media, including motion pictures.

POLITICAL ECONOMY APPLIED TO COMMUNICATIONS

The academic study of communications has not always embraced economic analysis, much less a political economic approach. During the 1940s and 1950s, communications scholars focused primarily on individual effects and psychologically oriented research, with little concern

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for the economic context in which media is produced, distributed, and consumed.

In the 1950s and early 1960s, former Federal Communications Commission (FCC) economist and University of Illinois professor Dallas Smythe urged scholars to consider communications as an important component of the economy and to understand it as an economic entity. In 1960, he presented one of the first applications of political economy to communications, defining the approach as the study of political policies and economic processes, their interrelations, and their mutual influence on social institutions (Smythe 1960). He argued that the central purpose of applying political economy to communications was to evaluate the effects of communications agencies in terms of the policies by which they are organized and operated or to study the structure and policies of communications institutions in their social settings. Smythe further delineated research questions emanating from policies of production, allocation, or distribution, and capital, organization, and control, concluding that the studies that might evolve from these areas were practically endless.

In the 1970s, Murdock and Golding (1974) defined political economy of communications as fundamentally interested in studying communications and media as commodities produced by capitalist industries. The article represented “a ground-breaking exercise . . . a conceptual map for a political economic analysis of the media where none existed in British literature” (Mosco 1996, p. 102). A later work (Murdock and Golding 1979) placed political economy within the broader framework of critical and Marxian theory, with links to the Frankfurt School, as well as to other critical theorists. Nicholas Garnham (1979) further outlined the approach, noting that the political economy of communications involves analyzing “the modes of cultural production and consumption developed within capitalist societies.”

Media scholars studying political economy often draw on several disciplines – specifically history, economics, sociology, and political science. And, while some may question whether or not a specific methodology

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is involved, the study of political economy uses a wide range of techniques and methods, including not only Marxist economics but also methods utilized in history and sociology, especially power-structure research and institutional analysis.

Because historical analysis is mandatory, the approach is able to provide important insight into social change and movement. Political economy becomes crucial in order to document communications in its total social context. Interrelationships between media industries and sites of power in society are necessary for complete analysis, and their analysis helps to dispel some common myths about the economic and political system, especially notions of pluralism, free enterprise, competition, and so on. Through study of ownership and control, political economists analyze relations of power and confirm a class system and structural inequalities. In that the position includes economic *and* political analysis, it is therefore necessary grounding for ideological readings and cultural analysis. And, through identification of contradictions, political economic analysis provides strategies for intervention, resistance, and change.

POLITICAL ECONOMY OF FILM

The U.S. film industry has been the focus of ongoing research by a few researchers in the political economy of communications. Thus, the political economy of film incorporates those characteristics that define political economy generally, as discussed previously, namely social change and history, social totality, moral grounding, and praxis.

Fundamentally, the political economy of film analyzes motion pictures as commodities produced and distributed within a capitalist industrial structure. As Pendakur notes, film as a commodity must be seen as a “tangible product and intangible service” (Pendakur 1990, pp. 39–40). Similar to other industry analyses, the approach addresses questions pertaining to market structure and performance. However, political economists analyze these issues as part of the larger communications and