

COMPETITIVENESS POLICY AND ECONOMIC ORGANISATION: THE
CASE OF THE BRITISH FILM INDUSTRY

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Abstract

The British film industry has long been characterised as highly volatile, chronically unstable and liable to recurrent crises. The traditional policy response up until the 1980s involved support through a mixture of quotas, fiscal support and industry levies. During the 1980s this policy stance was reversed as deregulation and the exposure of the industry to market forces were seen as key to enhancing its economic performance. More recently, a new policy preoccupation with, and orientation to, the film industry has emerged. The film industry on this view is characterised as possessing inherent but unrealised potential which it is the role of government, albeit operating in tandem with the market, to unlock. The aim of this paper is to examine more precisely the nature of this emerging 'competitiveness policy', using film as a focus for a conceptual and theoretical examination of the issues involved. We explore the relationship between competitiveness and organisational form and consider the potential of various kinds of policy intervention to transform the prospects of a sector such as film in the face of the weight of its historical development. We suggest that a 'path-dependent' perspective on competitiveness supports the belief that policy can most effectively operate through identifying the distinctive capabilities of British producers and by promoting 'structural' change, that is to say, the development of forms of contractual cooperation which can allow for the effective management of risk and uncertainty. The success of film policy in promoting organisation innovations of this kind will show whether, in a wider context, competitiveness policy can succeed in its goal of moving the market 'in the right direction'.

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1. Introduction

The British film industry has long been characterised as highly volatile, chronically unstable and liable to recurrent crises. In 1952, a Political and Economic Planning report concluded that 'the crisis in British film making - where lies the main problem of the industry - started long ago, and only at rare intervals during the past forty years have there been short periods of prosperity to lighten an otherwise depressing canvas. Of a stable production industry there has been no sign' (PEP, 1952: 11). The perception of crisis goes back at least to the Cinematograph Films Act 1927, which imposed a quota for the exhibition of British films after it had been established that over 90 per cent of films shown in the UK were made in America. Crises since then have included the collapse of investor confidence in the late 1930s, the effects of the Second World War on film production, the post-war Hollywood boycott of the UK market in retaliation against the Attlee government's tax policies, the overexpansion of the Rank Organisation in the late 1940s and its subsequent retrenchment, the withdrawal of US funding for domestic British production in the late 1960s, and the slimming down of the industry which followed on from the implementation of deregulatory free market policies under the Conservative governments of the 1980s. As Geoffrey Macnab argues, 'in the 1990s, for all the talk of Britain as the "Hollywood of Europe", there is still a crisis' (1993: xi). This perspective is shared by many of those who are actively engaged in the industry. Independent film producer Sally Hibbin has recently provided the following description:

'There are catastrophic cycles in the history of British Film. This is how they run: British movies suddenly become internationally popular; the Americans arrive and buy up everything they can; some years later they pull out; our industry collapses in the wake.

It happened with *Tom Jones* in 1969 and *Chariots of Fire* in 1982. *The Crying Game* and *Four Weddings and a Funeral* took us to the brink of a similar crisis. It has almost become a tradition in our industry.’ (Hibbin, 1998a: 40).

Despite this cyclical pattern and the associated recurrent crises, at the level of policy the film industry is increasingly being pointed to as possessing considerable potential for growth and as a significant source of overseas revenues. Thus the *Creative Industries Mapping Document* published in 1998 by the Department of Culture, Media and Sport (DCMS) situates the film industry alongside fashion and music as sectors of potential competitive advantage for the UK. Indeed, film has received specific attention. The Report of the Film Policy Review Group, *A Bigger Picture*, which was published in March 1998, identifies certain inherent capabilities and capacities in the UK film industry. However, it also found that the right mix of knowledge, skills and creativity was compromised by an outmoded and inappropriate industry structure, and that remedial action was required. Specifically, the Report draws a contrast between an American model - *distributor led and integrated* - and the British case - *production led and fragmented*. Government was identified as having a key role to play in promoting a strategic response to the structural problems of the British film industry:

‘It is clear that the industry will not be able to provide audiences with a consistent supply of commercially successful British movies until it transforms its current fragmented structure into an effective integrated industrial process. We must be prepared for such a transformation to take a long time and it must be market led. We can however seek to create conditions favourable to it and to help move the market in the right direction by means of strategic use of public and private funds, investment incentives and active encouragement’ (FPRG, 1998: 18).

This perception of a film industry with inherent but unrealised potential which it is the role of government to unlock, albeit in

tandem with the market, stands in sharp contrast to the orientation which characterised the direction of film policy during much of the 1980s. The 1984 White paper on *Film Policy* dictated an approach which was to be in line with 'the government's approach to industry generally'; this implied policies which would effectively set the film industry 'free' by doing away with 'an intrusive regulatory framework'. As a result, the core components of film policy throughout the post-war period – tax write-offs, the quota system, the recycling of profits from exhibition back to British producers through the 'Eady levy', and direct government financing for film investment – were largely removed. The end result, however, was to accelerate the fragmentation of the industry and to precipitate a crisis in production which saw the number of British-made films fall to just thirty in 1989 (Hill, 1996). Deregulatory policy remained in place until the election of a Labour government in 1997, whereupon a degree of fiscal support was reintroduced and several new initiatives were announced, including the setting up of three film production franchises with funding from the Arts Council.

Documents such as *A Bigger Picture* and the 1984 *Film Policy* White Paper are based on assumptions about the nature of the competitive process and the role of government in promoting improved economic performance. Often, however, these assumptions are not clearly articulated and their implications not fully thought through. The purpose of this paper is to examine more precisely the nature both of the competitive process and of what we may call 'competitiveness policy'. The British film industry forms both the focus for our theoretical and conceptual analysis and a case-study of the goals which policy of this kind may be expected to achieve. We aim to explore, in particular, the relationship between competitiveness and organisational form and the potential of various kinds of policy intervention to transform the prospects of a sector such as film in the face of the weight of its historical development.

Section 2 below accordingly explores the meaning of competitiveness in more detail and draws out some important distinctions between

traditional competition policy and policies aimed at promoting the competitive advantage of firms, industries and countries. Section 3 then uses recent developments in institutional and evolutionary economic theory, in particular the theory of path dependence, to analyse the link between policy and economic organisation in the development of the British and American film industries. Section 4 consists of a more detailed account of the distinctive organisational and institutional features of the 'contractual environment' of the current UK film industry. Here we draw on case studies and interviews carried out with industry participants during 1998 and 1999. Section 5 then assesses the significance of the film policy which is in the process of developing from the 1998 report of *A Bigger Picture*, and related government initiatives. Section 6 concludes.

2. The Meaning of 'Competitiveness Policy'

The view that government should play a role in promoting 'competitiveness' is now widely held. One of the first bodies to be charged with articulating this goal was the US National Competitiveness Council, which was set up in the mid-1980s. In the UK, the Department of Trade and Industry (DTI) has analysed competitiveness in a series of White Papers the first of which dates back to the late-1980s. The European Commission published its own White Paper on *Competitiveness, Growth and Employment* in 1993 and in 1997 the Treaty of Amsterdam made 'the strengthening of the competitiveness of Community industry' one of the aims and objectives of the EC. However, there is some confusion over precisely what 'competitiveness' means in this context and what the growing number of policy initiatives are trying to achieve.

2.1. Distinguishing between competition policy and competitiveness policy

A *market* may be said to be 'competitive' if it is characterised by active competition between rival producers. In a perfectly competitive

market, the working of the price mechanism ensures that producers supply the precise quantity of goods demanded by consumers at the lowest possible cost. In this situation, 'technical' efficiency, or the cost-effective use of inputs to produce a given set of outputs, ensues from the ever-present threat that consumers will switch to lower-cost producers. 'Allocative' efficiency is also guaranteed in the sense that in the state of competitive equilibrium, where all gains from trade are realised, the respective utilities of all market participants (consumers and producers) are (by definition) maximised.

Governments and legal systems have a number of instruments at their disposal for promoting competitive markets in the sense just described. These include antitrust laws and administrative controls over mergers, which seek to remove 'distortions' or 'restrictions' on competition between producers operating in the same market. However, this well-established area of 'competition policy' is quite distinct from the more recent focus on 'competitiveness'. On the whole, competition policy seeks to maintain an optimal level of rivalry (or, in some versions, contestability) within markets (see Whish, 1993: ch. 1). The aim of what we may call 'competitiveness policy', by contrast, is the promotion of conditions which are conducive to the achievement of competitive advantage by particular firms and industries. While these two goals may well coincide in some respects, they are also likely to come into conflict at numerous points. This is because, in large part, they rest on different notions of the competitive process.

According to the DTI's 1994 White Paper on Competitiveness, a *firm or organisation* is competitive if it can meet 'customers' demands more efficiently and more effectively than other firms' (DTI, 1994: 9). This implies that a competitive firm is one which gains an advantage over its rivals through its superior capacity to adapt to a changing environment. Competitive strategies, therefore, involve a search for innovation in the use of technologies and in the design of processes and products, through which firms seek to meet previously unsatisfied demands of consumers. The term 'innovation' can refer

here either to incremental improvements or to the 'radical' adoption of completely new methods or techniques. Either way, the emphasis is on competition as a 'process of discovery' through which firms and organisations seek to capture supra-competitive 'rents' which last until such time as the practices or products which form the basis for their market advantage become more widely imitated or adopted by their rivals.

In short, competitiveness policy is concerned with how far firms can survive and compete under rapidly changing conditions, that is to say with their *dynamic efficiency*. By contrast, competition policy has traditionally focused on the achievement of *static efficiency* or the minimisation of costs under conditions of known technologies and methods and stable patterns of demand.

Critics of competition policy writing from the perspective of 'Austrian' economic theory have argued that by taking the perfectly competitive market as a benchmark, it has provided a justification for forms of state intervention which properly have no place in a market-led economy. This occurs because

'[t]he extraordinarily demanding conditions required for perfectly competitive equilibrium render mainstream neo-classical economics not so much a body of market theory demonstrating the efficiency of real-world capitalism, as one demonstrating its departures from allocative efficiency. Vigorous anti-trust legislation and enforcement came, therefore, to be seen by defenders of the market economy steeped in the mainstream paradigm as steps urgently needed in order to defend the capitalist system against its otherwise non-competitive character' (Kirzner, 1997: 59).

In a dynamic model of competition of the Austrian type, antitrust interventions are seen as unnecessary since the process of competitive rivalry, in itself, contains the basis for incumbent firms to be challenged. Moreover, such interventions will be positively harmful

in so far as they remove the opportunity to profit from returns to entrepreneurial discovery, which for this purpose include supra-competitive rents. From the point of view of this critique, the only legitimate role for government is to ensure that the relevant markets are open to entry. Since in practice the most significant barrier to entry is constituted by government activity in the form of grants and licenses, 'the *only* government action needed to ensure the dynamically competitive character of market activity is to remove all such government-created obstacles' (Kirzner, 1997: 61-62).

From this perspective, competitiveness policy would be synonymous with deregulation of the kind which operated in British film policy in the mid-1980s. Deregulation includes, for this purpose, the scaling back of traditional antitrust or competition policy. The market process is seen as largely spontaneous or self-generating, once it is left alone. However, an alternative point of view, while retaining the emphasis on competition as a process, would see a role for government intervention in terms of promoting certain public or collective goods which the market process cannot be relied upon to provide by itself. This is the essence of the approach underlying competitiveness policy of the kind which has gradually emerged in a number of countries over the past decade.

Central to this approach is the claim that the notion of competitiveness can be meaningfully applied to particular *regions* and *states*. Applying the idea of dynamic competition at country level, the 1998 White Paper of the DTI argued that:

'in a global economy, technology spreads quickly and goods can be made in low cost countries and shipped to developed markets. British business therefore has to compete by exploiting capabilities which competitors find hard to imitate. The UK's distinctive capabilities are not raw materials, land or cheap labour. They must be our knowledge, skills and creativity' (DTI, 1998a: 6).

On this basis, significant indicators of competitiveness include the trade balance and comparative measures of labour productivity and investment in research and development. The contribution of government lies in providing a combination of information, public investment, and the right incentive structure: 'the Government has a key role in acting as a catalyst, investor and regulator to strengthen the supply side of the economy' (ibid.).

To this end, the 1998 White Paper proposed government action in three areas. Firstly, it argued that what it called 'capabilities' within firms would be enhanced by a number of measures including investment in the science and engineering base and the provision of assistance to small and medium-sized enterprises in the adoption of information and communication technologies. Under this heading, entrepreneurial activity would be fostered by measures designed to increase the flow of venture capital to start-ups and by changes to insolvency law aimed at 'removing the stigma associated with business failure'. The use of the concept of capabilities or 'competencies' in this context to describe sources of competitive advantage which depend upon aspects of economic organisation (such as relations of close interdependence between buyer and supplier firms) echoes a substantial body of recent work in the economic theory of the firm and of the region (see C. Lawson, 1999). Secondly, the White Paper called for a series of measures aimed at enhancing inter-organisational cooperation. These included the dissemination of standards laying down good practice in supplier relations and financial support from government for the development of local and regional 'clusters' of firms. Thirdly, the White Paper argued that changes to competition policy (mostly contained in the Competition Act 1998) would help to preserve 'open, transparent and effective markets' of the kind needed 'to encourage efficiency and innovation' (ibid., 51).

The overall philosophy of the 1998 White Paper is that the nation's competitive success is 'ultimately down to business' but that 'Government has a critical supporting role to play' in particular by

'making markets work better' (DTI, 1998: 11). There is no attempt to lay out, in a systematic fashion, a theory of when government intervention is and is not appropriate. Nor does the White Paper acknowledge that there might be contradictions between its policy of encouraging inter-firm collaboration, on the one hand, and its commitment to the strengthening of competition policy mechanisms on the other. However, for present purposes the most important aspect of the White Paper is its reassertion of the view that a 'competitive economy' at national level is, in itself, a type of public good which it is the government's responsibility to maintain. This theme has been consistently stressed throughout public policy pronouncements on competitiveness policy in the UK since the late 1980s. Competitive firms and industries create spill-over effects in terms of higher living standards and opportunities for productive employment. Hence in the words of an earlier White Paper (DTI, 1994), citing the OECD, a particular region or country is competitive if it 'can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the incomes of its people over the long term'.

2.2. The wider goals of competitiveness policy

Another aspect of competitiveness policy is that it may be invoked to serve ends other than the narrowly economic goals of improved living standards and enhanced opportunities for productive employment. Other goals, such as cultural diversity and expression, may be served by the preservation of an indigenous industry in a sector such as film production. Film is here perceived as a special case requiring unique treatment and support. This aspect of competitiveness policy keys into long standing themes associated with the development of film policy in the UK. The argument that the development and assessment of film policy should not be carried out solely within a framework dominated by commercial considerations is illustrated by the following statement from the 1944 Palache Report (Board of Trade, 1944):

‘The view is held in some quarters that the British cinematograph business is to be regarded merely as one business among others which may claim no special consideration, and that it is out of place for Parliament to show special concern for its conduct and future development. We do not share that view and we are confident that Parliament will continue in its endeavour to safeguard its future by means of special legislation not applicable to industry in general. A cinematograph film represents more than a mere commodity to be bartered against others.’

This cultural preoccupation with the need to preserve a ‘national cinema’ is a recurrent theme in debates surrounding film policy. While one set of commentaries upon the development of the film industry seems preoccupied with aspects of industrial performance, running alongside these and sometimes intertwined with them are a further set of commentaries which are primarily concerned with the cultural implications of the American dominance of the industry. John Hill (1999) suggests that this cultural perspective became especially influential during the 1970s when the Terry Report of 1976 argued that ‘a positive and constructive film policy should not be based exclusively on considerations of commercial profitability’, but that ‘the benefits to be derived by the community as a whole’ should also be taken into account. Similarly the Interim Action Committee’s report of 1979 argued that ‘the object of government policy for films’ was to provide ‘an art form’ and ‘films which reflect British life’ (Hill, 1999: 32).

Ian Jarvie, writing with regard to the 1920s and 1930s, identifies the constituency likely to support such a stance on film policy as consisting of narrow cultural elites. Jarvie suggests that

‘otherwise progressive and even radical cultural elites become statist when the issue is the foreign domination of the industries of mass culture. Business groups are relatively easy to identify. And their interests are manifest. The makeup of cultural elites, the constituencies for whom they speak, and with what authority,

and their interests, are much more difficult to identify. Like politicians and others, their rhetoric often suggests that they speak for the inarticulate masses. However, when the music of the box-office turnstiles also speaks for the masses, and speaks differently from the elite, we may be alerted to an undemocratic and paternalistic undertow.' (1992: 27)

Similarly, Stead suggests that there existed in the 1930s a British film culture patterned around 'a national film institute, a network of film societies, a number of intellectual film journals, a whole tradition of documentary film making and close links between those interested in film and educationalists, especially those engaged in adult education... One is always struck by the optimism; the breakthrough was always just around the corner and any day the masses would opt for quality films' (1981: 27). Jarvie is, of course, correct to point to and criticise the paternalistic assumptions behind much of the debate surrounding film policy (1992: 173). However, the danger of adopting this kind of strong opposition to a 'culturalist' perspective is that any attempt to develop criteria by which the performance of the industry is to be assessed beyond the satisfaction of immediate wants becomes misinterpreted as necessarily paternalistic. Here, there are important continuities between film policy and policy with regard to broadcasting (Pratten, 1998; see also Dorland, 1997).

Hence it has been suggested from the very inception of film policy in the UK (and in many other countries: see Moran, 1996) that the goals of cultural diversity and national self-expression would be served by the preservation of an indigenous film production sector. The perception that the large US studios were dominating the domestic market goes back to before 1914 and later formed the basis for the quota system, guaranteeing a share of the domestic market to UK-based producers, which was introduced by the first major piece of film legislation, the Cinematograph Films Act 1927. The role of film policy in building a 'collective consciousness about nationhood' is itself 'complex and contentious' (Street, 1997: 1), in particular since it is far from clear that there is such a thing as a single and unchanging

national culture (Hill, 1992). However, proponents of ‘a “national cinema” which is capable of registering the lived complexities of British “national” life’ (Hill, 1996: 111) argue that such a goal cannot be realised in the absence of ‘political and cultural support for film’ (ibid., 112).

The language of recent public policy documents relating to the UK film industry suggests that cultural justifications for film policy are increasingly viewed as part of the wider competitiveness policy. Hence the 1998 *Creative Industries Mapping Document* published by the Department of Culture, Media and Sports saw government as (amongst other things) ‘playing its role in promoting creative industry exports, removing obstacles to free trade or opposing the introduction of measures which would harm the international competitiveness of UK companies *and promoting an image of Britain as the creative and innovative hub of the world*’ (emphasis added) (DCMS, 1998: 10). In similar vein, the report of the Film Policy Review Group, *A Bigger Picture*, argued that:

‘The British film industry, in common with all our creative industries, has enormous potential. As recent successes show, our movies are capable, without compromising their individuality, of attracting huge audiences at home and abroad. These successes show that we have a real talent in this unique area where culture and commerce meet’ (FPRG, 1998: 3).

This approach implies, then, that the preservation of an active and independent British film industry can simultaneously meet two goals: (1) the production of cultural goods which are, in some way, distinctively British, and (2) the fostering of competitive advantage in an area (the ‘creative industries’) in which Britain is seen as having a natural (but as yet not fully realised) lead over other countries.

2.3. Criteria for judging competitiveness

This perspective on contemporary film policy aids the understanding of the criteria against which current government policy has chosen to judge the 'competitiveness' of the British film industry. Table 1 summarises evidence on five of these: the balance of external trade in film; the number of UK films in production in a given year; the percentage of UK films securing a theatrical release within a year of production; the amount of money invested in UK film production; and the percentage of UK box office receipts taken by UK-made films.

The balance of trade is a long-standing measure of the competitive success of an industry. In this regard, the recent performance of the British film industry seems to have been a successful one: as the *Mapping Document* states, '[o]ver the last ten years, the UK has consistently had a surplus in film' (DCMS, 1998: 51). In 1996, for example, there was surplus on the external account of £91 million out of total receipts from exports of £522 million. However, the positive trade balance is thought to be at least 'partially misleading' since, thanks to the dominance of distribution by US companies, 'most of the revenue from films made in the UK flows out of the country' (DCMS, 1998: 51). Moreover, taking film and TV production together, the UK had a trade deficit of £0.1 billion in 1997, with imports of £1.3 billion outweighing exports of £1.2 billion. The failure of the film industry surplus to grow more quickly in the mid-1990s during a period when TV production went heavily into deficit thanks to an influx of US productions on satellite and cable TV is reported to have caused ministers to be concerned that 'such a key constituency of Britain's creative industries should be running a trade deficit' (Barrie, 1999).

Other criteria listed in Table 1 are relevant to the issue of how far British-made films can compete with rival products in both domestic and overseas markets, but they also relate to the question of how far a successful British film industry can meet other, cultural objectives. With regard to the volume of production, the 1998 *Mapping*

Document claims that 'British film production is currently undergoing a renaissance' (DCMS, 1998: 50). The number of British films in production was 116 in 1997 and 128 in 1996; both these figures reflect a considerable increase on the numbers being made as recently as 1992 (47), 1989 (30) and 1981 (31). However, closer inspection shows that numbers have fluctuated considerably from year to year since the early 1980s and that on a ten-year basis there has been a steady decline from the post-war highs of the 1950s, when 138 films were made in 1953 and again in 1957 (the late 1930s was also a highly active period of production, with 192 productions in 1936). Investment in film production has also seen wide fluctuations since the early 1980s although it has increased in most years since 1989 when, in constant prices, it was less than one fifth of the level of expenditure in 1996 (Thomas, 1999).

Another perspective on the success of British films is the percentage of films which secure a theatrical release. In 1996, only 19% of British-made films secured a general release to 30 or more screens within a year of production and a further 14% were released in arthouse cinemas or on a limited West End showing. Fully 67% of British films made in this year had no public showing of any kind. This compares unfavourably with previous years (see Table 1).

The share of UK box-office receipts taken by UK-made films has been a particular focus of policy, since the Minister for Culture, Chris Smith, set a target rate of 20% in his speech outlining the new government's film policy in 1997 (the last year in which UK-made films took a higher percentage of the UK box office than American films was 1946). The extent to which British films already meet this new target depends precisely on how a UK-made film is defined. The 1998 *Mapping Document* quotes a figure of 19.9% of UK receipts taken by UK films in 1997, compared to 11.8% in 1996, 8.6% in 1995 and 8.8% in 1994. The basis for this estimate is not provided. Figures provided by the BFI and Screen Finance for 1997 give a somewhat different breakdown. Exclusively UK-financed films account for only 8.2% of total UK receipts, US-UK co-productions account for a

further 16.22% and other UK co-productions for 2.66 %.

These figures give some indication of the current competitive position of the UK film industry, the most salient feature of which is that the UK market itself continues to be dominated by Hollywood. Although the proportion of box office taken by American films has fallen since the early 1990s, the recent 'renaissance' of British film production owes much to a few spectacular commercial successes, most notably *The Full Monty* and *Bean*. Even then, neither of these two films ranked in the top twenty in terms of worldwide box office for the year in question.

The precise meaning of a British-made film is also relevant to the question of how many films are in production in the UK. Of the 116 British films in production in 1997, only 65 were placed for official statistical purposes in 'category A', that is, 'films where the cultural and financial impetus is from the UK and the majority of personnel are British.' A further 15 films were in category B, that is, 'majority UK co-production films in which, although there are foreign partners, there is a UK cultural content and a significant amount of British finance and personnel', and 17 films in category C were minority UK co-productions not involving US finance. A further 19 of the total of 116 were 'American films with a UK creative and/or minor financial involvement'; these included some films with a mainly British cast (such as *Little Voice* and *Sliding Doors*) but also films whose cultural content could not be thought of as distinctively British in any way but which made use of British studios and technical facilities. *Saving Private Ryan*, *Star Wars: Episode One* and *The Big Lebowski*, on this basis, were all counted as films produced in the UK.

If competitiveness were to be defined in purely commercial terms, this would not matter. The trade surplus in UK film production, as the *Mapping Document* recognises, is partly the result of the large number of US-UK co-productions which are filmed in Britain. However, the use of the UK as base for film production by the US majors does not address the need for what *A Bigger Picture* refers to

as 'a self-sustaining commercial film industry' in Britain (FPRG, 1998: 10). Although that document maintains that 'specifically cultural objectives were outside the remit of the review' undertaken by the Film Policy Review Group, it also accepts that 'achieving our economic goal will lay the foundations of a healthy and diverse film culture, allowing a wide range of film making, from the shoestring budget to the blockbuster, to flourish throughout the UK' (ibid.). The approach of *A Bigger Picture*, then, is to see economic and cultural goals as essentially complementary: the achievement of competitive survival and success for the British film industry is also the means by which the cultural goals of a 'national cinema' are to be met. On this basis, the positive trade balance is less important as an indicator of competitiveness than are the small number of British films with substantial overseas takings, the relatively low share of the UK market taken by British-made films, and the difficulty many British film-makers have in obtaining a theatrical release in the UK.

2.4. Critiques of competitiveness policy

When we move from diagnosis to prescription, a powerful argument against the idea of competitiveness policy in this and related contexts has been mounted by critics who claim that while it may make sense to speak of a particular firm or organisation being 'competitive' to a greater or lesser degree, the same notion cannot be applied to an industry, region or country. What matters from the point of view of national living standards is long-run productivity growth, so that at national level 'competitiveness' is just a synonym for 'productivity' (Porter, 1990). Moreover, latter-day adherents to the theory of comparative advantage insist that trade between states is a positive sum game even in circumstances where productivity levels in the two states concerned are markedly different (Krugman, 1996). This would be self-evidently the case if the real world of international trade conformed to the simple, two-commodity models upon which classical trade theory is based. Then, it is easy enough to see that trade enables countries to take advantage of their particular 'comparative advantages' or specialisations, to the mutual benefit of both sets of

populations. However, this model takes no account of the costs of structural adjustments – movement of resources from declining sectors to more successful ones – which, on the assumptions of the classical model, economies must undergo when exposed to international competition. Nor does it pay any regard to capacity constraints and other limitations on the ability of countries to export goods and services to the degree necessary to meet particular patterns of demand for imported goods (see Deakin, Goodwin and Hughes, 1997: 356).

In the somewhat less unreal world of so-called new trade theory, it is accepted that ‘much trade, especially between similar countries, represents specialisation to take advantage of increasing returns rather than to capitalise on inherent differences between the countries’ (Krugman, 1990: 2). The location of particular industries may, initially, be a matter of chance or historical accident; however, once they become established, increasing returns to locational advantages mean that they tend to remain where they are. Examples of locational advantages would include ‘agglomeration’ or ‘clustering’ between buyer and supplier firms and the emergence of localised pools of skilled labour, which in each case give rise to positive externalities in the form of scale economies and specialisation in the division of labour. The continuing concentration of US film production in and around Los Angeles, for example, is said to be an example of these effects (Storper and Christopherson, 1987).

New trade theory can be read as implying that government policy has a role to play in fostering the growth of particular industries by underpinning agglomeration effects within localities or regions. However, the difficulty lies in knowing precisely how government intervention can have the positive effects intended for it. Paul Krugman gives a number of reasons, which he considers to be ‘essentially empirical rather than theoretical’, for supposing that ‘the theoretical possibilities for activism [are] virtually certain to do more harm than good’ (Krugman, 1996: 23). In particular, he maintains that it is extremely hard to translate the theoretical conditions for strategic

trade policy into practical advice in the context of real-world industries and regions. His position is similar in essence to the 'Austrian' critique of state intervention to which we referred above, namely that government is unable to collate and apply the information necessary for policy mechanisms to work: 'it is extremely hard to gain enough understanding of an imperfectly competitive industry to formulate an effective trade policy' (Krugman, 1996: 24).

In short, the formulation of an effective policy for promoting competitiveness depends on more than the identification of market failures, negative externalities and other barriers to growth within industries. It also presupposes that we understand the complex interrelationships between policy mechanisms, industry structures and economic outcomes. Is this, as the critics argue, an impossible task? A useful way into this debate is, we believe, to use the concept of path dependence to explain the way in which the structure of an industry is shaped over time by institutional and organisational factors. This approach is of particular relevance to the film industry in Britain, since a widely held view is that the industry's lack of competitiveness is a consequence of its failure to reproduce the vertically integrated structures of the US majors.

3. Competitiveness and Path Dependence: The Importance of Economic Organisation

3.1. Path dependence as a source of competitive advantage and disadvantage

The theory of path dependence holds that economic development is shaped by a society's institutional and organisational structures (see Roe, 1996, for a summary and restatement of path dependence theory). These structures possess a certain persistence and durability as a result of 'lock-in'. Lock-in can arise from the irreversible nature of initial investments and from 'feedback effects' or increasing returns which arise from the continuing use and reproduction of a particular technology, mode of organisation, or system of institutional

governance. The particular path which is taken by an economy may be determined by essentially contingent events or by the unpredictable effects of policy intervention at crucial junctures; once set along a certain path, however, the direction of economic change may not be reversible except at high cost.

Path dependence affects the way in which we think about the implications of economic organisation for efficiency. The form in which economic organisations are constituted – the degree of vertical and horizontal integration of firms, the nature of collaborative links between firms within supply chains – is, from an institutional economic perspective, an important determinant of efficiency, and hence of competitiveness. A high level of vertical integration may therefore be an appropriate response to uncertainty and frequency of contracting and to the need of both parties to realise relation-specific investments over the course of a long-term trading relationship (Williamson, 1996). However, it is unclear whether the durability of a particular pattern of organisation is, in itself, evidence for its efficiency.

One view is that to the extent that there is competition between modes of organisation, more efficient forms should prevail over time; the less efficient ones would be driven out. Another view, though, would emphasise that the position in which an industry or economy finds itself cannot be presumed to be efficient or optimal simply because that set of conditions has persisted through time. In a path-dependent world, the costs of undoing the effects of the past may outweigh (or be perceived to be outweighing) the benefits of moving the economy towards a more efficient state.

There is disagreement in the literature on how far path dependence of this kind leads to the persistence of inefficiencies. When an alternative form has been shown to have superior characteristics from the point of view of performance, but the costs of adapting existing processes and procedures would outweigh the benefits of doing so, it is possible to speak of 'semi-strong form path dependence'. This

implies the persistence of structures which are not *optimal* but which are *efficient* for the context in which they operate, since, being 'irremediable' they represent the best *feasible* option (see Williamson, 1993; Liebowitz and Margolis, 1995). In 'strong form path dependence', by contrast, the structures in question could be remedied but in practice are left intact because of what Roe refers to as 'information and public choice barriers' (Roe, 1996: 651). In other words, institutional change can be held up by *perceptions* of the *expected* costs and benefits, together with resistance by incumbent interests.

In our view, the crucial issue is not whether path dependence takes a semi-strong form (efficient) or a strong form (inefficient). In the concrete context of any particular set of arrangements, there may be no ready way of distinguishing between these two conditions. The key question is how institutional and organisational change occurs, and whether there are forces inherent in the process of change which spontaneously tend towards efficient outcomes. The message we take from path dependence is that where there are increasing returns and lock-in effects, there is no process of automatic adjustment between institutions or organisations and their environment. The process of change is both uneven and unpredictable, and there can be no assumption that its outcome will be a state which is either optimal or (in a second-best sense) efficient.

The implications of path dependence for competitiveness theory are potentially ambiguous. An industry can be more or less competitive as a result of factors which are partly the result of historical accident (initial endowments) and partly the result of increasing returns once a particular pattern of economic development has been established. On one view, there is little that policy alone can do to affect the relative competitiveness of firms and industries. Unless and until an external event or 'shock' disrupts the path of economic development, systems are more or less locked into their particular comparative advantages or disadvantages. Policy can reinforce an already-existing tendency by identifying sources of comparative advantage and taking steps to

safeguard and promote them, but otherwise its contribution is necessarily limited.

However, it also follows that at any given time, the competitive state of an industry is the result of factors which are heavily influenced by the institutional framework. The persistence of inefficient or sub-optimal forms of economic organisation may be the result of policy mistakes in the past, or the consequence of a failure to change policies which responded effectively to the needs of an earlier period but which are now irrelevant. Policy change may therefore have a significant impact upon the path of economic development (which is not the same thing as saying that the effects are necessarily foreseeable).

3.2. Increasing returns to technology and organisational form in the film industry

In the case of the film industry, there is strong evidence to suggest that technology and institutions have interacted in such a way as to give rise to lock-in effects, and that the evolution of the industry in both the USA and Britain has, as a result, been path-dependent. One particularly important aspect of economic organisation in this context is the use of vertical integration as a means of sharing and spreading risk. The production of an individual film is by its nature a highly risky venture, in which it is generally impossible, in advance, to get a reliable estimate of the likely returns on investments. It is above all for this reason that the integration of film production with the two other elements of the process – distribution and exhibition, and in particular the former – is considered to have provided the US majors with a vital competitive advantage which the UK film industry has been unable to replicate. In the words of *A Bigger Picture*,

‘The US industry is dominated by *distribution-led, integrated structures*, where the processes of development, production and distribution are financed and carried out by a single company. Such firms can use the revenues from distribution to finance

production; they have the critical mass to attract finance; they are thus able to make big budget films, write off failures and build up a library of rights. By contrast, the UK industry is *production led and fragmented*. The production process is separate from the distribution process which is dominated by big US companies. Production remains a “cottage industry”: most producers have no close relationship with a distributor, cannot easily reduce risk or raise finance by developing a slate of films, and have to sell their rights in order to get their films distributed.’ (DCMS, 1998: 1-2).

The importance of risk in this context derives from the unpredictability which attaches to the process of assessing the commercial prospects for any individual film. A commercial return can only be obtained once a film is exhibited and, until that point is reached, it is not possible to predict with any certainty the returns which a film may make. The result is that in a large proportion of cases, films do not recover their costs. As Hill observes: ‘to describe even mainstream film production as “commercial” can be misleading insofar as a substantial percentage of films do not, in fact, make money. Within the West it is only the Hollywood majors that have been able to spread the financial risks of production in such a way as to make film making, more or less, consistently profitable’ (1999: 47). The 1994 Monopolies and Mergers Commission Report on the *Supply of Films for Exhibition in Cinemas in the UK* put it as follows:

‘Investment in films is very risky. Every film is different, combining the different artistic and creative talents of numerous individuals from the initial ideas, through script development, design, acting, photography, background music and editing, to marketing the final product, including advertising and promotion. Until the finished film is finally released for exhibition in cinemas, it is difficult to tell whether it will be a success. What is certain, however, is that the film’s investors will not see any return for their money at all until the film has been exhibited to paying customers. While the unpredictability of the returns from films can to a limited extent be managed (eg by the regular

production of formulaic films containing what past experience has shown to be the important ingredients of successful films), it is the case, and the industry continues to expect, that only about one-fifth of new films will make a healthy profit from their theatrical release, a further one fifth will break even, and the rest will lose money for those financing them (though some films will recoup their losses from ancillary markets).' (MMC, 1994: para. 4.12)

It is important here to be precise about what distribution of films involves. As Moran explains (1996: 2), '[d]istribution is that part of the physical cycle of the film industry whereby the finished film (in the form of celluloid stored in cans) is warehoused and shipped to various destinations. The general activity of distribution also includes systems for booking particular films for showing in various exhibition outlets, preview arrangements, and publicity and marketing'. The key role of distribution derives in part from its pivotal, intermediate position in the chain of production and supply, linking together production and exhibition. According to *A Bigger Picture*, 'while the costs of making a film are incurred at the development/production stage, revenues from exhibition do not arise until much later and accrue first to the distributor, who takes significant fees before the costs of the film are recouped and it goes into "profit", which may not be until long after its first release. Only where there are close links between the two processes can this revenue stream be used to fund further production: distribution is in effect the engine which drives the process' (FPRG 1998: 13-14).

However, this is not the full story. The importance of distribution is also the result of the way in which technological and institutional factors have interacted over time with the organisation of the film industry to make the distributors best placed to manage the particular risks attached to film. The first successful, vertically integrated film company of the early years of the twentieth century was the French company Pathé Frères, but from the 1910s onwards the most rapid development came from the US majors most of which began as

exhibitors and only later moved into distribution and production. Hollywood's subsequent domination of the film industry has been ascribed to a number of factors some of which can be considered as historically contingent. The First World War stymied the development of European cinema at a time when the US industry was growing quickly. US production was solidly based on a large and growing domestic market which had no counterpart in other countries at this time, while, during the period of silent movies, language differences provided no barrier to the establishment by the US firms of an internationally saleable product (Jarvie, 1992).

Once established, Hollywood's position was cemented through a mixture of strategy and positive 'feedback effects' which saw it build on its initial competitive advantage. 'Strategy' included an active role for the film industry associations, in particular the Motion Picture and Producers of America (MPPDA) and the Motion Picture Exporters Association (MPEA) which acted in tandem with the US government in defence of the US film industry's interests. Examples of concerted action by the US majors included representations made to the UK government on film policy throughout the 1930s and 1940s and the boycott of the UK market in 1947-48 in response to the short-lived Dalton levy on imported films which was designed to stem the outflow of dollars from the postwar British economy (Jarvie, 1992).

In terms of feedback effects, the technology of film meant that once a film's commercial success was clear, the costs of disseminating it – the costs of making further prints of the negative - were minimal, so that the income stream subsequently was practically pure profit. The result was that '[h]istorically, Hollywood has been able to amortise its development and production costs in a particular market or markets so that revenue derived from other markets, being almost pure profit, would mean film rental and admission prices could be set at what those other markets could bear' (Moran, 1996: 4). Feedback effects at the organisational level included the quasi-monopoly position which control of distribution provided the US majors, and which made it difficult for external producers to break in (Vogel, 1986; Jarvie,

1992). The distributors were in a position not just to use revenues from the occasional successful film to cross-subsidise those which failed, but also to spread the risks of particular films failing by pre-selling packages of films to exhibitors through the practice of 'block selling'.

3.3. The changing nature of competitive advantage in the media industries

Institutional factors affecting the development of the US film industry have included the antitrust litigation of the late 1940s which, by requiring the US majors to give up their interests in exhibition, and had the effect of reinforcing their focus on the crucial distribution stage. This, together with the rise of television as a rival to domestic US film exhibition, focused the majors' attention on international distribution and exhibition (Balio, 1990). This was a crucial development which has made it possible for US dominance to be reproduced over time even though the structure of the leading US corporations and the nature of the market in which they are operating were both changing substantially.

Since the 1950s the marketplace for film production has undergone a dramatic shift from theatres to a widening array of television based entertainment services located inside the home. From the 1950s through to the 1970s television's success cut sharply into movie theatre attendance. In the last two decades, the proliferation of new television channels based upon cable and satellite delivery systems and the widespread use of video cassette recorders have turned the home into the principal site for the distribution of cultural products based upon 'moving images'. The US majors responded to this challenge by reducing their dependence on cinema exhibition and diversifying into a wide range of media outlets. A degree of reintegration then occurred when further changes to the rules on theatre ownership in the 1980s enabled the majors to reacquire interests in cinema exhibition.

As a result by the mid 1990s the majors had 'consolidated their control over the value chain – from theatres, to video stores, to pay-TV, the networks and cable' (Dale, 1997: 26). During this period Hollywood retained its dominance in overseas markets for feature films and extended its corporate reach into the markets for home based entertainment. In 1993, for example, the US film industry generated a \$4-billion surplus, second only to exports from the defence and aerospace industries in its contribution to US balance of payments. In 1986, the major studios received 65% of their revenues from the US market. By 1991, the US market accounted for 53.2% of revenues and foreign markets accounted for 46.8% (Balio, 1998).

It is generally thought that the pattern of competitive advantage within cinema was set from an early stage. It has been argued that from as early as the 1920s, 'short of a collapse of the US industry, the prospects for its potential rivals were poor' (Jarvie, 1992: 93). In particular, the British film industry was doubly disadvantaged since it not only had to compete with Hollywood in its home market (the UK was Hollywood's largest export market between the 1920s and 1950s), it also had to contend with the consequences of vertical separation at the level of economic organisation. In the 1920s,

'Britain had a tripartite industry. There was exhibition, a very profitable sector; distribution, which was partly American owned and controlled; and a continuous flow of commercial production - although aggregate output fluctuated widely. These three sectors seldom found their interests in harmony. Exhibitors wanted a guaranteed flow of product at reasonable prices that would draw audiences. Producers wanted a guaranteed market for their films in preference to those of foreigners. Distributors were a house divided against itself, some acting for their principals, exhibition interest; others for their principals, American interests; still a third group attempting to achieve a kind of independence by handling either British or foreign films' (Jarvie: 1992: 103).

There have been numerous attempts to achieve a degree of vertical integration which would allow the UK industry to compete more effectively, most notably by the Rank Organisation in the late 1930s and 1940s. J. Arthur Rank seems to have had a clear conception of the advantages to be reaped from vertical integration. He actively pursued the objective of developing an organisation which combined production, distribution and exhibition with the explicit aim of producing high budget, prestige films to compete directly with the US majors at home and abroad (see Macnab, 1992, for a full discussion of Rank's attempts to break into the American market). Rank also saw this strategy as providing a degree of independence for a number of relatively autonomous film producers (*ibid.*, ch. 4). By the early 1950s, however, Rank's effort to build an integrated company on the US model which could effectively compete in the American market had failed, thanks in part to over-expansion during the US boycott of the British market in 1947, after which the company was required to enter a period of retrenchment. The experiment of providing protection and autonomy for independent film producers ended shortly after.

Rank remained involved in production, distribution and exhibition until the 1980s. Rank and ABPC (subsequently ACC, Associated Communications Corporation) effectively dominated the industry during this period and although modest in comparison to the US majors their integrated structures did provide a certain degree of security for the domestic industry. However, as cinema audiences continued to decline during the 1970s and early 1980s these integrated UK firms increasingly devolved responsibility for actual production on to independent producers. This process of disintegration accelerated during the 1980s and led Rank, Thorn EMI and Cannon to withdraw not only from direct involvement in production but also investment in production.¹ The encouragement of vertical integration as a response to a perceived crisis in the industry has since been tried again with Goldcrest in the 1980s (Eberts and Illot, 1990) and with Polygram in the 1990s (Finney, 1996). In neither case did an independent, effective competitor emerge: Goldcrest, after

some notable successes, almost went bankrupt in 1987 and ceased production shortly thereafter. Polygram was taken over by the conglomerate Seagram in 1997 and later merged with the US major MCA in 1999.

3.4. The legacy of British film policy

The British film industry offers a case study of the all-pervasive but often unintended effects of government policy on economic development. For much of its history, British film policy has sought to promote an indigenous film industry through a mixture of 'protectionism and state oversight' (Jarvie, 1992: 106). The three main components of this approach were the system of statutory quotas, the National Film Finance Corporation, and the so called Eady levy. Quotas date back to the Cinematograph Films Act of 1927. The 1927 Act aimed to foster production by encouraging the exhibition of British films. The Act imposed a statutory obligation on renters and exhibitors to acquire and show a quota of British films. In the first year the renters' quota was 7.5% and the exhibitors was 5% (the renters' quota was higher so that exhibitors would be able to exercise an element of choice). Both were to increase by stages to 29% by 1936, and to remain at that level until 1938 when the Act expired.² The quota system was extended by the Films Act 1938 and remained significant up until the 1980s.

The National Film Finance Corporation was originally designed as a temporary measure to help alleviate a crisis in British production after World War Two. It was established in October 1948 as a specialised bank to make loans in support of British film production and distribution. Subsequent legislation ensured a continuing role for the NFFC and by the end of the 1970s it had invested in over 150 British feature films. The Eady levy was originally devised by the Treasury official Sir William Eady, and was introduced on a voluntary basis in 1950 before being made compulsory under the Cinematograph Films Act of 1957. The levy was designed to recycle income from domestic film exhibition back into production; it consisted of a levy upon

exhibitors' earnings and was administered by the British Film Fund Agency (see Hill, 1996).

In the 1980s, this protective policy was turned on its head by government policies which were aimed at removing 'the paraphernalia of Government intervention' (Hill, 1996: 102; see also Hill, 1999: ch. 1). The NFFC, which gradually metamorphosed into British Screen, was given a more commercial remit with only limited financial support from government. The quota was first reduced and then abandoned from January 1983 and in 1985 the Eady levy was abolished. Hill has argued that 'in the case of the quota and the Eady levy, it was not so much their abolition which presented a problem as the absence of any alternatives to them' (Hill, 1996: 103). The problem with the levy was that the financial benefits (in the form of income recycled from exhibition) disproportionately went to the most successful producers, while the quota system was in effect unenforceable since insufficient British films were being made. For a while, the industry was boosted by 100% capital allowances on film production, but these were phased out between 1984 and 1986 and, after a revival in production in the early 1980s, there was a further decline between 1988 and 1991. As a result, 'a hundred years after the birth of cinema, the [British] production sector has practically returned to its original cottage industry structure' (Street, 1997: 23).

3.5. The scope for policy interventions

If there is general agreement that the organisation of the British film industry – its fragmented, vertically-disintegrated structure – is a major cause of its relative disadvantage in competitive terms, there is less consensus on how that problem can be addressed. A path-dependent perspective would suggest that the British film industry has failed to benefit from the positive feedbacks which have served to maintain Hollywood's competitive advantage over many decades. Many of the reasons for this failure are historically contingent. This history cannot be rewritten in such a way as to allow the British film industry to compete from scratch.

However, our organisational diagnosis of the film industry also suggests a more positive outlook on policy. Just because a set of institutional structures are in place does not mean that they can be treated as if locked in for good. To accept such a view would involve moving from the realisation that the past is ever present to the unwarranted assertion that it is all determining. Even where a course of development appears to proceed unabated, the potential for radical redirection may be present and liable to be triggered at any time (see T. Lawson, 1997: 251).

Indeed, as we have seen, the pattern of US advantage has shifted over time. The US majors have retained their competitive lead while effectively reinventing themselves as vertically-integrated, multi-media organisations, whose size and ability to diversify makes them capable of responding quickly to changes in technology and in consumer demand. It can be argued that this strategy was made possible by the tradition of US dominance of the industry. However, the transformations which have occurred in the industry since the late 1950s and the changing nature of the large US corporations themselves suggest there was nothing predetermined or inevitable about the reproduction of American competitive advantage. Conversely, it would be wrong to suppose that the circumstances will not arise in which the British film industry can enhance its own competitiveness.

It follows that policies and strategies can be formulated with the objective of restructuring those institutional characteristics which have traditionally inhibited the development of the UK film industry. It is important to appreciate that to proceed with such a programme, and to understand how policy can make a difference, requires detailed understanding of the context within which policies are to operate. We therefore turn to a more detailed consideration of the environment within which the British film industry currently operates.

4. The Contractual Environment of the British Film Industry

As the previous section showed, British film producers operate in an environment which has been shaped by complex interactions between film policy, competitive strategy and technology going back several decades. Relations between the different elements in the production and supply chain have acquired a certain durability as a consequence of the process of economic development. Four elements of this 'contractual environment' are particularly important for understanding the present competitive position of the British film industry and the options open to policy-makers: the 'cottage industry' nature of the British production companies; the mode of operation within the UK market of the US distributors and their links to the exhibition sector; the role played by UK television companies in relation to domestic film production; and the recent emergence of collaborative links between a number of UK producers and sources of finance in the form of 'first-look deals' and film consortia.

4.1. The 'cottage industry' character of British film production

As indicated above British film production since the 1980s has been largely carried out by independent production companies who typically put together projects on an irregular or one-off basis. As one independent producer has stated,

'One of the most interesting things about film-making in Britain today is the way people use the word "independent". It's a bit of a wild goose chase because we're all independent in Britain' (Tribits quoted in Jones and Johnson (1997: 3)).

Some UK-based production companies have close relationships with distributors; Working Title, for example, has a relationship of this kind with the US major, Universal, and there are some signs of an increase in co-production arrangements (Gibbons, 1999). However, these are still the exception.

Independent production has many virtues; it can be seen, for example, as offering creative autonomy for film-makers and as a means of enhancing cultural diversity. However, the disadvantages of independence are the absence of a reliable income stream which makes it possible to control for the risks of individual films failing; lack of the resources needed to mount large-scale productions; and inability to retain control over the intellectual property rights to productions in such a way as to build up a long-term income stream based on the exploitation of films through the video and television markets. The typical form of contractual relations entered into by an independent production company is that described by *A Bigger Picture*:

‘companies are established to develop, finance and produce a single film, then start again from scratch on their next project. Most producers have no on-going relationship with a distributor; they cannot easily raise finance or reduce risk by developing a slate of films; and they have to pre-sell the rights to their films in order to get financing and distribution for them. As a result they do not benefit fully from their successes and cannot build up a library of rights.’ (FPRG, 1998: 14).

Until the early 1970s it was common for independents to have close ties with one or more of the UK or European-based majors, such as Rank, EMI or Pathé. At times, substantial production programmes have also been undertaken in the UK by American companies. Thus in the late 1960s, United Artists, Paramount, Warner Brothers, MGM, Twentieth Century Fox, Columbia, Universal and Disney all had substantial production programmes in the UK. However this enthusiasm for production in the UK did not last and was scaled down considerably in the early 1970s (see Dickinson and Street, 1985: 240, for details).

Now, the industry is characterised by dozens of small producers many of whom ‘are just one person with a telephone’ (interview notes). According to an independent producer we interviewed in the summer

of 1998, most UK production companies have weak balance sheets and no security of revenue, in each case the result of being very largely dependent on project-specific funding. Only a few of the larger and more successful producers are able to retain some control over intellectual property rights and to keep up a regular output of films. The implications of this structure are spelled out by *A Bigger Picture*:

‘This undercapitalisation and lack of direct contact with the market has a number of consequences for British producers. Typically they are not able to produce the large budget films with the “A” list stars and special effects which are known to appeal both at home and abroad: the average budget for the wholly British films produced in 1997 was less than 3.5 million pounds compared with over 18 million pounds for the overseas films made in the UK. They do not have access to the sophisticated audience research available to the majors. Nor do they have the resources to develop a series of projects and write off those about which they are uncertain, or to continue developing a script until it is fully ready to go into production; instead they often rush into production because that is when their finance is released.’ (ibid.).

It is against this background that we can now go on to consider in more detail the role of the US distributors, the relationship between film and TV, and the emergence of new forms of inter-firm cooperation in the financing and production of films.

4.2. The role of the US majors in distribution in the UK

The dominance of distribution within the UK by the large US majors has direct implications for the competitiveness of the UK producers. Distribution in the UK is largely the preserve of the five US majors: Buena Vista, Columbia, Fox, UIP and Warners. The main role of these operations is to distribute the films made or acquired by their parent companies. They do not have to bid or pay in advance for the UK distribution rights to those films, but act as sales and marketing

arms of their respective groups. Their role is to advise on which films should be released for UK cinema exhibition, to draw up and implement release and marketing strategies and to sell exhibition rights to cinema operators (that is, to book films into individual screens). These distributors shared 78% of total UK box office between them in 1997 (including revenues from British films). Only two European distributors, Entertainment and Polygram Filmed Entertainment (which itself merged with the US major MCA in 1999) had a significant market share (6.6% and 8.9% respectively) taking the market share of the 'big seven' distributors to over 93% (MMC, 1995).

With regard to exhibition, UK cinema operators fall into four main categories. Firstly, there are the circuit exhibitors. Prior to 1995 there were two of these, Virgin (formerly MGM Cinemas) and Odeon. Both had a national chain of cinemas, Virgin with 116 sites and 406 screens, Odeon with 71 sites and 320 screens. In 1997/8 the former MGM cinemas were split between ABC and Virgin, with the latter focusing on out-of-town multiplex sites. Secondly, three US-owned companies - UCI, Showcase and Warner's - have entered the market in the last fifteen years by building multiplex cinemas. By July 1996 UCI had 26 sites and 232 screens, Showcase had 14 sites and 181 screens and Warner Village had 16 sites with 143 screens. The third category consists of the several small chains of cinemas, most of which are confined to one part of the country: and the fourth consists of a large number of exhibitors which operate one or two cinemas (MMC, 1995).

The US majors have had a cautious attitude towards domestic UK film production since the period, at the end of the 1960s, when large-scale US investments in British-made films were hurriedly scaled back. During the 1980s, 'the US majors were generally reluctant to invest in indigenous film features, preferring to use Britain as a base for their own productions' (Hill, 1999: 43). The emergence of close ties between the US majors and the exhibitors during the 1980s drew the attention of the Monopolies and Mergers Commission. In its 1983

report on exhibition the MMC found that Rank and EMI enjoyed an effective duopoly within the exhibition sector but its recommendations for changes to the structure of the industry were not accepted by the then government. In 1993 a further MMC report found that the larger distribution and exhibition companies were engaging in a 'scale monopoly' based on a number of restrictive practices (it also found that MGM Cinemas enjoyed a 'scale monopoly' based on a more than 25 per cent share of the relevant market). These included an informal practice of 'alignment' whereby the 'distributors systematically [offer] their films to the cinemas of either MGM Cinemas or Odeon in places where they are in competition one with the other, but not to both' (MMC, 1995: para. 2.13). In addition, it was common for distributors and exhibitors to enter into agreements for the exclusive right to show certain films; for distributors to refuse to deal with exhibitors in respect of certain films; and to impose requirements in respect of minimum exhibition periods and restrictions on the use of screens to show certain films. The MMC also found evidence of what it called 'overseas-based decision-taking': in other words, 'distributors and exhibitors with related companies based overseas reserving important decision-making functions (for example, as regards which films should be released or shown in the UK and as regards release strategies) to such companies' (ibid.).

The link between the close control of distribution and exhibition which the MMC report revealed and the difficulties facing British film producers was made explicit in a number of representations made to the Commission including those by the producers' trade association, PACT, and the British Film Institute. As the report noted,

'we received representations that British producers experienced difficulties in securing an adequate showing for their films. This was said to be due to a bias in favour of the distribution and exhibition of US films in the UK. US films were preferred by exhibitors because they had already been market tested, enjoyed substantial advertising support and consequently represented a

much reduced risk compared with British (or indeed other non-US) films. The problem was exacerbated by the shortage of screens in the UK and by restraints exercised by the leading distributors over exhibitors. A high level of concentration in both distribution and exhibition, and the close vertical links between the two sectors, discouraged new entrants, reduced competition and enabled the Hollywood studios to control the market to the detriment of other producers. Difficulties in securing adequate distribution in turn militated against new investment in UK independent film production.' (MMC, 1995: para. 2.107).

The MMC's response was firmly based on traditional competition policy. In effect, its starting point was that the wider issues of competitiveness raised by the representations of PACT and the BFI were outside its remit; in particular, it eschewed any attempt to make 'cultural judgements' (para. 2.110). Although it was able to consider 'whether practices in the UK distribution and exhibition markets cause difficulties to UK producers' (ibid.) it was able to do this only in the context of determining whether evidence of restrictive practices had been established, not whether indigenous producers were at a particular disadvantage because of the perspective taken by the dominant US distributors. Hence although it found that alignment 'makes the markets less responsive to consumer preferences than it should be', the changes it recommended to address this problem would, it considered, 'improve the prospects for attractive films from any source to achieve their potential in the exhibition market' (para. 2.221). Similarly, the relaxation of controls over minimum exhibition periods would 'incidentally benefit' British film makers in so far as this would extend 'the exhibitors' freedom to show films which they consider will best meet their customers' preferences' (para. 2.224). However, the Commission rejected the wider complaint lodged by PACT and the BFI on the grounds that the *market* for distribution was characterised by effective competition, a standard argument of the competition-policy type:

‘No single distributor dominates the market and there is effective competition both among the leading distributors and between them and independent distributors. Contrary to the arguments advanced [by PACT, BFI and others], we do not believe that the Hollywood studios or their UK affiliates have any public duty positively to facilitate the making or distribution of British films. They told us that they were always interested in opportunities to invest in promising film projects or to distribute independent films with commercial potential, and there are notable examples of their doing so. We consider it healthy that such decisions should be taken according to commercial criteria.’ (para. 2.221).

This conclusion may usefully be compared to the conclusion of a report by the Media Business School on the implications for European film production generally of Europe’s failure to develop integrated production and distribution structures:

‘The absence of a European distribution network dooms European films to an increasingly domestic career and puts a halt to any effort to create a European industry and a European market... On a transnational scale any sort of political strategy or worldwide distribution structure has been absent, leaving the field uncontested to US majors; Europe lacks powerful companies with resources to operate global distribution from a unified position and to amass the huge catalogues which the US majors use as capital assets. An estimated 900 distribution companies struggle to distribute 500 films a year’ (quoted in Hoskins et al., 1997: 64)

The MMC’s report illustrates both the strengths and the weaknesses of a competition policy approach. On the one hand, an attack on restrictive practices could *incidentally* (in the MMC’s words) be expected to have some impact on opening up opportunities for domestic film producers. However, this does not, in itself, address the problem of the competitive disadvantage faced by British producers who lack access to the organisational structures which are needed in

order to manage and share risks in the financing and production of films. Since the MMC's remit is limited to issues of monopoly and restrictive trade practices, it is likely that no other conclusion would have been possible; however, the episode is a reminder of the limits to what can be achieved even with an interventionist competition policy.

4.3. Television and film production

As the structure of production, distribution and exhibition in the UK film industry was fragmenting in the 1970s and 1980s, there was growing recognition of the role played by television in maintaining the production sector. Many see the role of Channel 4 as having been particularly vital. Channel 4 was set up on a 'publishing house model'; with no production facilities of its own, it bought in all its programmes from outside producers. The remit given to the Channel combined a continuing commitment to the principles of public service broadcasting with support for innovative and culturally diverse programming. These combined to encourage the emergence of a film commissioning process which sought to nurture UK-based independent film producers, in much the same way as Channel 4 promoted the independent production sector generally.

According to its own calculations Channel 4 invested a total of £98 million in 273 films during the years 1982-93. During the 1980s the budget for 'Film on Four' rose from around £6 million to £12 million. The funding of films took three main forms: full-funding, co-investment, and the pre-purchase of television rights. The policy of Film on Four was to make films on comparatively modest budgets, written and directed by established filmmakers but introducing new writing and directing talents. Its main commitment was to indigenous British productions, especially original screenplays on contemporary social and political topics (Hill, 1999: ch. 3).

While Channel 4 has been the most consistent and committed of the television companies involved in film production, it has not been completely alone. The BBC has invested in films since the 1970s,

although on a much smaller scale than Channel 4. In the 1990s the BBC's Films Unit has had an annual budget of around £5 million to co-finance films intended for theatrical release, with the intention to commission ten projects a year (interview notes). It also purchases the television rights of five independently produced films each year, which it will then broadcast.

Meanwhile, encouraged by the experience of Channel 4 a number of ITV companies (including Granada, Central and Carlton) were tempted to invest in feature film production towards the end of the 1980s. Altogether, ITV companies were involved in about twenty productions between 1985 and 1990. However, from 1988 onwards, faced with an increasingly competitive broadcast market and significant regulatory change, the ITV companies at least until very recently withdrew their participation in film finance.

The implications of the increasing role of television companies in financing film production for competitiveness remain contentious. The contribution of Channel 4 and the BBC, in particular, has been to use their distinctive public service remit to promote a particular kind of film which has been seen as a crucial component of furthering the objective of developing a distinctively British cinema. Hence Hill has suggested that 'although the history of the 1980s is sometimes portrayed as a period of decline for the cinema, and one in which it became debilitatingly dependent upon television, it is also a period in which British filmmaking became more culturally diverse and more aesthetically adventurous than in any previous period. That it did so was precisely the result of the involvement of television and the extended possibilities for film making which a public service broadcaster such as Channel Four provided' (Hill, 1996: 171-172). However, the kind of film promoted by the television sector has typically been on a rather modest scale, and not always well equipped to compete internationally. Ilott's discussion of the shrinkage of European film budgets relative to the US draws out this negative aspect of television's increasing involvement in film production outside America:

'The decline of European film budgets has coincided with a significant increase in the proportion of film revenues gained from television. Two conclusions could be drawn from this. The first is that, as European films get smaller, so they become more dependent on television. Television can thus be cast in the role of the saviour of European cinema, albeit on a reduced scale. The second conclusion is that, as European films become more dependent on television, their budgets get smaller. This would cast television in the role of cinema's most treacherous "ally". It would be broadly true to say that legislators and policy makers in Europe incline towards the former view, hence the widespread regulations requiring broadcasters to invest in feature films. But it would also be true to say that many leading film-makers regret the influence of television, especially in its tendency to support intimate, parochial projects, thereby contributing to the reduced commercial and creative ambitions of European cinema.' (Ilott, 1996: 30-31)

4.4. New forms of film financing, risk-sharing and contractual cooperation

Vertical disintegration, the perceived adverse effects of US dominance of distribution and the ambiguous relationship with television have greatly complicated the process of financing UK-made films. European Filmfile described the situation facing UK film producers at the start of the 1990s as follows:

'Since companies such as Rank, Thorn EMI and Handmade stopped producing films directly, no company in the UK has operated on a sufficiently large scale to finance the production of features without outside money. The UK can be described as a nation of small producers each producing few films, with no powerful integrated companies as in most other big European countries. As result, the role of UK producers is rather different from that of their counterparts in the rest of Europe. Rather than

finding one source which can majority back a project the UK producer is forced to assemble a web of sources, resulting in a more complicated pattern of financing than elsewhere' (quoted in Hill 1999: 51).

Indeed, one film producer reported to us that no fewer than sixteen separate sources of finance had to be accessed in order for one of her projects to be produced (interview notes).

One response to this problem has been a certain degree of innovation in terms of contractual cooperation between producers and providers of finance. Specifically over the last ten years various kinds of relationship have developed between independent production companies and distributors which have been variously referred to as first look deals, housekeeping deals, umbrella deals, overhead deals and output deals.

In the case of a housekeeping or first look deal, a producer signs up with a distributor or other financier on an exclusive basis for a period of years (a 3-year period is normal). The distributor provides financial support for overheads and development in respect of a series of films, in return for being given the exclusive right to be the first to distribute the product. In most cases the distributor is given some say in which films get made. An output deal is somewhat looser. Here, the distributor contracts to obtain the distribution rights for a particular territory in return for a financial contribution which is expressed as a certain percentage of the overall budget (interview notes; see also Finney 1996: 62-63 for further details).

Some producers perceive the development of these relationships to be of key strategic importance:

'Currently in the UK there are probably ten or twelve producers and production companies that have overhead and umbrella deals. That's new. It's very exciting, very hopeful. Five, six, seven years ago... independent producers... were all truly independent.

They didn't have any overhead deals; they were relying on development money from British Screen and Channel 4..... Now you have a group of producers,..., who all have the capacity to decide what they want to develop and when. The proof will be in the pudding. I mean, if their films turn out to be films that people want to go and see, the overhead deals will have been worthwhile for these companies' (Trijbits quoted in Jones and Johnson, 1997: 6).

Increasing use is also being made of highly-complex, three-way arrangements between producers, distributors and banks. This type of contract is risky for the banks which may find themselves with individual films which do not recoup their costs; sometimes insurance arrangements are made for meeting the costs of re-shooting a film which on pre-viewing is deemed to be a failure. Bank lending is often conditional upon the producer giving up in advance future rights to the exploitation of the film. Whether a producer is able to retain intellectual property rights, and whether he or she is able to command a particular percentage of the receipts as their fee, depends almost entirely upon their established track record and reputation (interview notes).³

The advantages of such arrangements for the producers include the long-term perspective which they encourage by providing funding for research and development, and the attenuation of risk which comes from a higher degree of financial security. In some cases, the process of hiring actors and directors in advance is facilitated. The principal disadvantage for the producer is that 'even with the deal, you are still on the hook' – the distributor still has the right not to take the product. Equally, the element of exclusivity can tie the producer into a deal which may become unattractive if the management of the distributor changes or their policy alters in mid-contract (interview notes).

Thus while many producers are actively seeking out opportunities for first look deals and similar contractual arrangements, they do not completely avoid the problems of risk management which small scale

producers face. How far such deals can adequately substitute for vertical integration as a means of managing risk is an open question. However, the question of risk management has also been addressed by a number of policy initiatives since the change of government in 1997, and it is to these that we now turn.

5. Restructuring the Film Industry: Elements of a New Film Policy

One of the first steps taken by the new Labour government which took office in 1997 was to reintroduce fiscal support for film in the form of a 100% tax write-off for films with production costs upon completion of less than £15 million, to run for three years in the first instance. This was followed by the announcement by the Arts Council of England of plans to set up three film production franchises worth £92.25 million (the recipients were Pathé Production with £33 million, The Film Consortium with £30.25 million and DNA Film Production Ltd. with £29 million.) The franchises were expected to produce between them over 90 British films in the six year period for which they would operate, with a total investment of £460 million. Funding from the National Lottery was to represent 20% of the total investment.

A further raft of measures were proposed by Film Policy Review Group and outlined in *A Bigger Picture* in March 1998. The most ambitious proposal was for the establishment of an All Industry Fund to which all companies in the chain of film production, distribution and exhibition (including video supply and the broadcasting organisations) would be expected to contribute, albeit on a voluntary basis. The Fund would be used to support a number of initiatives for raising the profile of British film production and would complement industry-level support for skills training, marketing and promotion. In addition, it was proposed that further Lottery funding would be used to support development with a special emphasis upon distribution. Other proposals include the setting up of a private-sector led Film Marketing Agency, for the provision of marketing expertise to the

industry as a whole; collaboration between DCMS and the private sector on the establishment of an audience research capability; the establishment of a Skills Investment Fund and a New Training Strategy to enhance skills training; a number of measures aimed at enhancing the performance of UK film in international markets, including the establishment of an international sales market in London; and measures aimed at underpinning the infrastructure of the industry, including the extension of the work of the Film Policy Review Group through an Action Committee which would sit for a further year, and the setting up of a Film Finance Forum to augment links between the industry and the City.

In addition, the industry members of the Group recommended a series of further fiscal devices to stimulate film production, including the extension of the three-year period for the 100% tax-write off on production costs. It was also suggested that the write-off should apply to the first £15 million of expenditure on any film and not just to films with final budgets below £15 million. The Department formally distanced itself from these proposals on the grounds that fiscal changes were a matter for the Treasury.

It is too early to make an assessment of the possible impact of the new film policy; indeed, most of the proposals advanced in *A Bigger Picture* have still to be implemented. However, it is possible to evaluate the direction which that policy is taking and to relate its aims to the more general objectives of competitiveness policy as outlined in the DTI's White Paper of December 1998.

5.1. Identifying capabilities

The first component of the competitiveness policy laid out in the December 1998 White Paper was the identification and promotion of 'capabilities', that is, 'distinctive and valuable assets, which competitors find hard to imitate' (DTI, 1998: 14). In the context of the film industry, this implies that there should be some attempt to identify the distinctive elements of British film production. *A Bigger*

Picture reported that British films were favourably associated in the minds of cinema-goers with 'good team acting; high standards of scriptwriting; good direction; artistic integrity; recognisable characters; subtle humour; "cool" appeal, especially for the young; carefully-crafted classics'. On the other hand, there were negative perceptions of 'depressing, gritty realism, lack of stars and lack of entertaining visuals or special effects' by comparison to American films which 'scored highly in terms of expectations of glamour, spectacle, entertainment, reliable stars, and family appeal'. On this basis, the report concluded that:

'a sustained increase in British films' share of the domestic market depends on a more consistent supply of entertaining films with broad audience appeal. This does not mean sacrificing the qualities that make British movies distinctive; there is a demand, even among those most attracted to American movies, for what is widely seen as the craftsmanship, humour and inventiveness characteristic of British cinema. Films such as *The Full Monty* and *Four Weddings and a Funeral*, which are both seen as immensely enjoyable and quintessentially British, have universal appeal.' (FPRG, 1998: 32-33).

This attempt to pinpoint the key characteristics of a British film could be seen as illustrating the potential pitfalls of seeking, through the idea of competitiveness, to meet both the economic and cultural goals of film policy: the most successful films are not necessarily those which best fulfil the goals of cultural expression and diversity. But what is most problematic about this part of *A Bigger Picture's* prescription is the belief British film-makers are in a position to match Hollywood on its own terms. The danger here is that 'our industry is being encouraged to make films that do not suit its talents and to compete with Hollywood rather than build on its own strengths' (Hibbin, 1998a: 40). For most UK independents, it is unrealistic to envisage competing directly with Hollywood, because of the greater resources of the US majors and their access to the much larger US market:

'Culturally, we can't make US products in London! The US audience is less and less interested in non-US films. If we wanted to compete with the US we would just move to LA' (independent producer, interview notes).

On this basis, there is nothing inherently problematic in seeking to identify the core attributes of a British-made film; such a process can aid both the economic and the cultural goals of film policy. This is not to say that the process of definition is necessarily a straightforward one; the FPRG comes up with a definition of a British film 'based mainly on cultural factors', aimed at assisting in the monitoring of industry performance. This is based on a complex points system which includes among the relevant criteria whether the screenwriter, producer director and lead actors are British, and whether the 'subject-matter of [the] script [is] wholly or mainly British' (FPRG, 1998: 54).

5.2. Balancing competition and cooperation

Some commentators have seen the new film production franchises as an important response to the fragmented nature of UK production. Thus Thomas writes:

'One welcome development in 1997 was the setting up of the three commercial film franchises comprising some of the most talented and experienced producers in the UK... A move away from the project by project cottage industry approach that has characterised the UK production sector in recent years is a step in the right direction. Indeed the whole process of tendering for these franchises created a number of alliances between UK producers which bodes well for the future. In order for the UK to compete both at home and abroad, the evidence suggests we need fewer, better films. And to make them, we need fewer better production entities.' (Thomas, 1999: 28)

A producer involved in one of the successful franchise consortia described to us how the franchise had 'stimulated the range of film making possibilities', facilitated larger budgets, and allowed 'room to fail and reap the benefits from success'. The franchise had engendered 'a shift in the balance of power' between producers and distributors (interview notes).

The franchises can be seen as an attempt, then, to promote competitiveness on the basis of improved inter-organisational cooperation. They thereby correspond to the second of the three bases for improved performance laid out in the 1998 White Paper. The film franchises hold out the prospect that producers can obtain a degree of security within the framework of franchise funding, without being required to give up their autonomy. However, critics of the franchise structure argue that the stress on production is misplaced; policy should have been focused instead on linking production to distribution (independent producer, interview notes).

To some extent this objection would be met by implementation of the proposal put forward in *A Bigger Picture* for financial support for the distribution of British-made films. The report argued that the franchises should '[broaden] their support... to the development and distribution processes as well as production', and that National Lottery funding should be used to support a scheme 'to support the distribution of qualifying films' under which state support would 'help distributors to invest more in prints and advertising for British films and encourage all distributors, including the US majors, to distribute more British films' (FPRG, 1998: 19). It has also been suggested that public funding should be focused on the development of a set of specialised cinema exhibition franchises which would 'parallel the multiplex explosion of the eighties and build a complementary network of specialised cinemas across the UK' (McIntyre, 1998: 4).

The reference to the role of the US majors as distributors of British-made films leaves open the question of whether the third of the

elements of competitiveness policy advanced by the December 1998 White Paper – the active promotion of competition – has a role to play in the context of film. It would seem that, in this context at least, the emphasis is on public subsidy and the strategic targeting of public expenditure to promote collaboration, rather than on an activist competition policy. This perhaps reflects the limited value which an activist competition policy has in promoting competitiveness. As the 1993 report of the MMC demonstrates, the philosophy of competition policy is to promote consumer welfare rather than to provide the conditions for indigenous industries to achieve competitive advantage over their rivals.

6. Conclusion

In this paper we have seen that there exists a certain degree of consensus regarding the current competitive state of the British film industry. The ‘cottage industry’ nature of its production base, the growing role of television companies in the financing of film production, and the dominance of distribution by US majors are all features which are widely identified in reports and studies of the sector, as well as by those actively engaged in the industry. The implications of these structural features for performance remain contentious, however, as do proposed strategies aimed at promoting the industry’s future development.

The traditional conception of competition policy offers a clear policy agenda. Existing industry structures would have to be compared against the benchmark of effective competition and remedial action taken to the extent that restrictive practices or abuses of monopoly position can be identified. In themselves, these measures are unlikely to address the issue of how best to bring about the competitive survival and success of indigenous British film producers. If, by contrast, an ‘Austrian view’ of the market order is accepted, then the agenda for policy is equally clear cut - deregulation is the path most likely to ensure improved competitive performance. To a large degree

this latter line of thought can be seen as underpinning the film policy stance adopted during the 1980s in Britain.

By contrast, the view which underpins the emerging 'competitiveness policy' opens up a more complex and fluid agenda. As we have seen, competitiveness policy gives rise to potential ambiguities at the level of objectives. We have suggested here that the competitiveness policy stance is capable of incorporating a broader set of criteria for the assessment and development of policy – in particular, in the context of film, cultural goals are acknowledged as important. It is perhaps not immediately transparent that the kinds of strategy which may help promote competitiveness of the UK film industry in terms of its commercial performance will simultaneously sponsor the development of a 'national cinema' which meets these wider cultural objectives. It is at least as feasible to suggest that they might undermine the chances of meeting these goals or that a quite distinct and supplementary set of policy proposals is required to further these cultural objectives. For example, Sally Hibbin's reaction to the direction of recent government policy has been to insist that 'our success has always come from being production-led, from making films that people are passionate to make, not products designed to gain the largest audience figures' (Hibbin, 1998a:41). Elsewhere, she notes 'where we stumble is when we start to believe that we can emulate [American] films' (1998b). However, this position is not opposed to the argument that economic and cultural objectives can go together since, as Hibbin argues, it is precisely by promoting the production of culturally-specific 'quality' British films which address the concerns of British audiences that the industry can most effectively compete in both the domestic and international markets.

A path-dependent perspective on competitiveness supports the belief that policy can most effectively operate through identifying the distinctive capabilities of British producers and by promoting 'structural' change, that is to say, the development of organisational forms which can allow for the effective management of risk and uncertainty. Here, the balance struck between competition and

cooperation is likely to be a vital issue. It is not possible to recreate in any meaningful sense the conditions under which the large, vertically-integrated US majors first emerged, and then later reconstituted themselves in such a way as to achieve competitive superiority in international markets. However, the recent encouragement of collaboration through the film production franchises offers a novel solution which may prove to be more appropriate as a means of remedying the problems of fragmentation in the British film industry. The development of first look and housekeeping deals also points to the importance of cooperative relations in providing the stability for British producers to compete effectively. The success of film policy in promoting organisational innovations of this kind will show whether, in a wider context, competitiveness policy can succeed in its goal of moving the market 'in the right direction' (FPRG, 1998: 18).

Notes

1. The trend towards vertical disintegration in the media industries in general, and in particular in Hollywood, has been identified as part of a wider move towards the adoption of organisational forms based on 'flexible specialisation'; see Storper and Christopherson, 1987; Christopherson and Storper, 1986, 1989. This view was challenged by accounts which stressed the continuing dominance of the film industry both in the USA and internationally by the vertically integrated US majors (Aksoy and Robins, 1992; cf. Storper, 1993). We do not wish to enter into the wider debate about flexible specialisation and post-Fordism here, except to note, as the text argues, that there has been considerable divergence in the degree of integration within the US and UK film since the 1970s, and that this is generally understood to have had negative consequences for the competitiveness of the UK industry.
2. For the purposes of the Act a British film was defined as one made by a British subject or company but the definition did not specify that control had to be in British hands, only that the majority of the company directors should be British. All studio scenes had to be shot within the British Empire, and not less than 75% of the labour costs incurred in a film's production, excluding payments for copyright and to one foreign actor, actress or director, had to be paid to British subjects, or to persons domiciled in the Empire. The scenario had to be written by a British author.
3. Profit-sharing contracts, which share the risk between distributors/financiers and producers (and individual directors and actors) appear to have a long history in the media industries on both sides of the Atlantic. On their use in Hollywood, see Weinstein, 1998.

TABLE

Table 1**Criteria for defining the competitiveness of the UK film industry**

Balance of external trade	The balance of trade in films has been consistently in surplus over past decade. In 1996 there was a positive trade balance of £91m (exports of £522m and imports of £431m).
No. of UK films in production	116 films with a UK input were in production in 1997. On average there have been 80 such films in production each year during the 1990s. Equivalent figures are 43 per year in the 1980s, 81 in the 1970s, 99 in the 1960s, and 124 in the 1950s.
% of UK films given a theatrical release	Only 33% of UK made films made in 1996 secured a theatrical release of some kind within a year of production. Equivalent figures are 48% for 1995, 76% for 1990 and 88% for 1985.
Investment in UK film production	In terms of 1998 prices, total investment in UK-made films in 1997 was £581.9 million compared to £785 million in 1996, £271.8 million in 1990 and £455.3 million in 1985.
% of UK box office taken by UK films	Films with a UK input accounted for 27% of the UK box office takings in 1997. On a narrower definition which excludes certain UK-US co-productions, the figure for 1997 falls to 19.9% and for wholly UK-made films it is 8%.

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