A NEW MAP OF HOLLYWOOD AND THE WORLD[1]

Allen J. Scott,
Director,
Center for Globalization and Policy Research,
School of Public Policy and Social Research,
UCLA,
Los Angeles, CA, 90095

E-mail: ajscott@ucla.edu

Abstract

In this paper, I offer a reinterpretation of the economic geography of the so-called new Hollywood. The argument proceeds in six main stages. First, I briefly examine the debate on industrial organization in Hollywood that has gone on in the literature since the mid-1980s, and I conclude that the debate has become unnecessarily polarized. Second, I attempt to show how an approach that invokes both flexible specialization and systems-house forms of production is necessary to any reasonably complete analysis of the organization of production in the new Hollywood. Third, and on this basis, I argue that the Hollywood production system is deeply bifurcated into two segments comprising (a) the majors and their cohorts of allied firms on the one hand, and (b) the mass of independent production companies on the other. Fourth, I reaffirm the continuing tremendous agglomerative attraction of Hollywood as a locale for motion-picture production, but I also describe in analytical and empirical terms how selected kinds of activities seek out satellite production locations in other parts of the world. Fifth, I show how the majors continue to extend their global reach by means of their ever more aggressive marketing and distribution divisions, and I discuss how that this state of affairs depends on and amplifies the competitive advantages of Hollywood. Sixth and finally, I reflect upon some of the challenges that Hollywood must face up to as new cultural-products agglomerations arise all over the globe, offering potential challenges to its hegemony.

Key words: motion-picture industry; cultural economy; Hollywood; agglomeration; regional development; globalization.

Introduction

Some time in the 1980s, entertainment industry analysts began to refer more and more insistently to a so-called "new Hollywood," in contradistinction to the old Hollywood that had thrived over the pre-War decades on the basis of the classical studio system of production (cf. Gomery, 1998; Litwak, 1986; Schatz, 1983; Smith, 1998). This new Hollywood emerged slowly and painfully out of the profound restructuring of the old studios that occurred from the 1950s to the 1970s, and that finally resulted not only in a new business model but also in a new aesthetics of popular cinema. Over the last two decades of the twentieth century and on into the twenty-first, there has been a complex deepening and widening of the trends first recognized in terms of the new Hollywood, and the present paper is a modest effort to shed some light on the way these processes are currently working themselves out.

Hollywood has always been identified, in one of its principal representations, as a disembodied bundle of images. But it is, too, a distinctive geographic phenomenon, which, right from its historical beginnings a century ago, has assumed the form of a dense agglomeration of motion-picture production companies and ancillary services, together with a peculiar local labor market, within the wider context of Los Angeles (or, more generally, Southern California).[2] This persisting geographic base has been the arena of many and perplexing transformations over the last few decades. In addition to the break-up of the old studio system, five principal changes have had particularly strong impacts. These are:

1. The penetration of new computerized technologies into all stages of the motion-picture production and distribution process.

2. The steady bifurcation (as I shall argue) of the Hollywood production system into makers of high-concept blockbuster films and on the one side, and more modest independent filmmakers on the other.
3. The intensifying geographic decentralization of film-shooting activities away from the core complex of Hollywood.
4. The proliferation of new markets based on the packaging and repackaging of intellectual property rights.
5. The merging of the major studios (or "majors") into giant media conglomerates whose scale of operation is nothing less than global.

Not all of these changes are dealt with in equal depth in what follows, but they represent important background to any general examination of the recent growth and development of the Hollywood motion-picture industry. Three overarching themes structure the discussion of these changes here. The first is concerned with the changing logic and dynamics of Hollywood's competitive advantages as a dense agglomeration of firms and workers and associated institutions. The second is focussed on the segmentation of production activities in Hollywood into two distinctive, though overlapping segments. The third deals with the ways in which Hollywood projects its outputs onto wider markets, and on the ways in which it is now greatly intensifying its global reach and hold.

Economic Geography and the New Hollywood Debate

The key research on the economic geography of the new Hollywood was carried out by Susan Christopherson and Michael Storper in the mid- to late-1980s (Christopherson and Storper, 1986; Storper,1989; and Storper and Christopherson, 1987). The basic argument set forth by these two authors revolves around the transformation of the classical vertically-integrated studio system of Hollywood into the much more vertically-disintegrated production complex that it has become today.

Christopherson and Storper describe the old studio system in terms of a dominant group of seven majors, each of them vertically integrated across production, distribution, and exhibition. They also characterize the actual work of making films under the studio system as a mass production process (cf. Bordwell et al., 1985). They then go on to claim that the restructuring of this system was induced by two main factors, i.e. the Paramount antitrust decision of 1948, and the advent of television in the 1950s. The Paramount decision forced the majors to divest themselves of their extensive theater (cinema) chains[3] (cf. Cassady, 1958), and television drained off the audiences that had previously flocked to motion-picture theaters. The net effect, according to Christopherson and Storper, was a dramatic rise in competitiveness, uncertainty, and instability in the motion-picture industry, followed by the break-up of studio-based mass production, whose peculiar process and product configurations could no longer sustain profitable operations. Instead, the system was succeeded by a new order in which the majors divested themselves of much of their former productive capacity and contractual engagements, and became the nerve centers of vertically-disintegrated production networks. In this process, many kinds of skilled employees who had previously been on studio payrolls (producers, directors, writers, actors, musicians, camera operators, and so on) became freelance agents of their own labor (Anderson, 1994). Equally, large numbers of small flexibly-specialized firms sprang up in a wide range of subsectors in the motion-picture industry, providing both direct and indirect inputs of all kinds to the majors. This turn of events allowed the majors to cut their overheads, to pursue ever more diversified forms of production, and eventually to flourish in the new high-risk Hollywood (cf. Kranton and Minehart, 2000). Recently, Caves (2000) has described this same kind of development in the creative industries generally as a contractual model of business activity. In Christopherson and Storper's account, the break-up of the studio system and the emergence of a new flexibly-specialized Hollywood was associated with a "loss of control by the majors over production" (Storper, 1993, p. 482), though the authors also note that the majors continued to play important roles in Hollywood as centers of financing, deal-making, and distribution. With the reconstitution of the production system as a transactions-intensive congeries of small and specialized but complementary firms, the agglomerative forces holding the entire complex together in geographic space were reinforced and its regional competitive advantages secured.

The Christopherson-Storper story represents the first really serious attempt to understand the organizational and locational foundations of Hollywood as a productive agglomeration, and it must be given high marks for its pioneering analysis, especially in view of the fact that the shifts the authors were trying to understand were far from having fully emerged and were still very much subject to confusing cross-currents. Their basic characterization of the new Hollywood in terms of shifting networks of small flexibly-specialized firms provides us with eminently useful insights, notwithstanding the criticism to which this idea has been subject of late. Analysts such as Aksoy and Robins (1992), Blair and Rennie (2000), Smith (1998), Véron (1999), and Wasko (1994), have all questioned the emphasis on flexible specialization, and have instead averred that contemporary patterns of production in Hollywood can only be understood as an expression of the economic power and leverage of the majors. Other recent work that has laid stress on the continuing muscle of the majors has been presented by Balio (1998), Gomery (1998), Litman (1998), Maltby (1998), and Schatz (1997), among others.

In actuality, it is no doubt fair to argue that Christopherson and Storper paid insufficient attention to the durability and importance of the role of the majors in the Hollywood production system, though they certainly did not overlook this aspect altogether. For their part, a number of the critics – notably, Aksoy and Robins -- can be faulted for their radical depreciation of the role played by small producers, amounting virtually to an exercise in writing them out of any meaningful analysis of contemporary Hollywood. Aksoy and Robins are right to maintain that oligopoly never ceased to exist in Hollywood, (though its foundations were greatly shaken over the 1960s and 1970s). However, they fail seriously to identify the sources of the majors' market power, which at least since the Second World War has resided mainly in the internal economies of scale that characterize the their distribution systems (Huettig, 1944). The market power created in this manner is by no means necessarily incompatible with the existence of an efficient and dynamic production system based on flexible specialization à la Christopherson and Storper. In fact, in Aksoy and Robins' account, we lose sight entirely of the production system itself as a dense regional complex made up of thousands of intricately interdependent firms, and, by the same token, of the independent segment of the industry as a substantial locus in its own right of innovation, skilled work, and many and varied final products.

I shall attempt to demonstrate in what follows that a more accurate portrayal of Hollywood today involves acknowledgment of the important roles played by both large and small firms, i.e. by the majors, by independent production companies, and by the firms that supply them with different specialized service inputs. The argument interweaves with a further refrain focussing on the rapid globalization of Hollywood's market range (Balio, 1996), and this phenomenon actually appears – for the moment at least – to be reinforcing the centripetal locational attraction of Southern California for motion-picture production activities of all kinds.

An Analytical Taxonomy of Firms

At the outset, we need to clarify some of the conceptual language that has already made its entry in the previous section, and to use this exercise as a platform for a more disciplined description of the motion-picture industry. This will help us, in addition, to overcome some of the more disabling elements of the one-sided debates about the extent of flexible specialization versus large-scale oligopolistic production and distribution in Hollywood today.

In a very schematic way, any modern production system may be represented in terms of the size of its component units and the standardization (or variability) of their outputs. This idea is codified in Figure 1, where scale and standardization represent orthogonal axes defining a space within which any given unit of production can then be situated. Three paradigmatic outcomes relative to these axes are identified in the figure. One of these is designated mass production, which is exemplified by plants or establishments that produce standardized outputs in large quantities. Another is represented by systems houses,[4] which can be defined as large-scale production units turning out limited numbers of extremely variable and complex products (like space satellites or blockbuster films). The third case is labeled flexible specialization, which refers to small production units that focus on a relatively narrow line of business (for example, talent agencies, costume designers or film editing services), but where the design specifications of each particular job, or batch of jobs, are different from all preceding jobs. A fourth paradigmatic case (corresponding to the northwest corner of Figure 1) can conceivably be identified in the guise of small-scale process industries (Adam Smith's pin factory comes to mind), though this case would seem to be of limited empirical interest today. In reality, we rarely observe pure examples of these paradigmatic cases. Rather, actual production systems are usually composed of more or less hybrid production units, representable by points at intermediate positions relative to the vertices in Figure 1.

In spite of the notion developed by several analysts to the effect that the Hollywood studios had moved into something like paradigmatic mass production by the late 1930s, a brief scrutiny of their actual working operations reveals that this was not quite the case. Even less is it plausible to claim, as some have done (cf. Creton, 1994, 1997), that the system approximated to fordist mass production. Notwithstanding the efficiency gains that flowed from finely-grained technical divisions of labor, the use of continuity scripts, the constant re-utilization of formulaic plot structures, and the search for regular production schedules, film-making in the classical studio era was never standardized in any ultimate sense. We might argue, rather, that the classical studio can be represented by a location somewhere in the vicinity of point x in Figure 1, which is to say that its technical and organizational configuration was marked by quite high levels of scale and a degree of routinization, but nothing equivalent, say, to the typical Detroit automobile assembly plant churning out identical models by the thousands.

The old studios were nonetheless very much characterized by vertical integration over virtually all segments of the industry. Storper and Christopherson (1987) are probably correct to invoke the Paramount decision and the advent of television as being major factors in the destabilization of the industry's markets and its consequent restructuring, though the fact that very similar processes of break-up were proceeding at the same time in the music-recording industry and in television broadcasting (cf. Hirsch, 2000; Scott, 1999a) suggests that there may well have been more general trends at work. In addition to the rupture between distribution and exhibition, two other main organizational effects flowed from vertical disintegration in the motion-picture industry. The first was the transformation of the studios themselves into something closer to systems houses, i.e. large-scale (though comparatively downsized) establishments now focussing on the production of many fewer and increasingly grandiose films. The point labeled $\underline{y}$ in Figure 1 represents a typical case. The second was the emergence of masses of small independent production companies and service providers as exemplified by points $\underline{z}_1$ and $\underline{z}_2$ in Figure 1. This second category of firms comprises flexibly-specialized producers and near relations in the sense that they concentrate on making a narrow range of outputs in comparatively limited quantities, and in ever-changing shapes and forms. With the disintegration of the old studios after the 1940s, the latter types of firms colonized an enormous number of different market niches, and they have continued subsequently to push out the organizational boundaries of Hollywood, a notable recent instance being the formation of a vigorous special-effects sector in the 1980s and 1990s. To be sure, even in the age of the classical Hollywood studios, small specialized firms were not uncommon, but in no way did they achieve the significance, either as independent film producers or as specialized suppliers, that they have now.[5]

The Hollywood production system today can hence be described in terms of a prevailing pattern of major and independent film production companies (see Table 1), intertwined with ever-widening circles of direct and indirect input suppliers. These firms interact with one another in complicated ways as any given motion-picture production project moves through its three main stages of development, namely, (a) pre-production, involving elaboration of the initial idea, scenario preparation, raising finances, set design, casting, and so on; (b) production proper, an intense period in which large numbers of workers are mobilized in directing, acting, camera-operating, and numerous allied functions from set construction to lighting and make-up (DeFillippi and Arthur, 1998); and (c) post-production, namely, photographic processing, film editing, sound editing, and so on. In practice, as the discussion will now show, the production companies engaged in this sort of work can be segregated into two distinctive functional tiers, represented on the one side by the majors and associated firms (both subsidiaries and independents), and on the other side by a mass of independent production companies whose sphere of operations rarely or never intersects with that of the majors.

A Bifurcated Production System

The world of the majors. At the present time, there are eight major studios in Hollywood: Metro-Goldwyn-Mayer, Paramount Pictures, Sony Pictures Entertainment (Columbia-Tristar), Twentieth Century Fox, Universal Studios, Walt Disney Co., and Warner Brothers, together with newcomer Dreamworks, (see Figure 2). The first seven of these units are joined together in the Motion Picture Association of America (MPAA), which functions as an exclusive cartel promoting their interests.

The majors have traditionally concentrated on the financing, production, and theatrical distribution of motion pictures, but over the last few decades they have actively diversified their operations, and they now earn as much if not more of their revenues through their specialized divisions in such fields as television programming, home video, multimedia, theme parks, and merchandising. Most of the Hollywood majors today constitute operating units within even larger multinational media and entertainment conglomerates (Litman, 2001). Three of these -- the News Corporation (which owns Fox), Sony (Columbia Tristar), and Vivendi (Universal) -- are foreign-owned. As Acheson and Maule (1994), Balio (1998), Gomery (1998), Prince (2000), Puttnam (1998), Wasko (1994) and others have suggested, the growing complexity of these conglomerates can be ascribed in large degree to attempts to internalize the synergies that are frequently found at intersections between different segments of the media and entertainment (and hardware) industries. The modern media-entertainment conglomerate accordingly functions as a sort of parallel in economic space to industrial clusters in geographic space, i.e. as an economic collective, with the difference that if in the one case, the relevant synergies are activated under the umbrella of common ownership, in the other they owe their genesis to geographic proximity. Figure 2 sketches out the ownership relations between the Hollywood majors and their parent companies, as well as between the majors and their most important subsidiary film-production and distribution companies. However, the figure refers only to the feature-film operations of the majors and makes no reference to other divisions, e.g. in television programming or home video production.

The majors as currently constituted engage in feature-film production with varying degrees of vertical integration and disintegration of the relevant tasks. One way in which they proceed entails integrated in-house development, shooting, and editing using their own creative staffs and equipment as basic resources. It is important to note in this context that whereas the majors today are certainly more vertically-disintegrated than their pre-War forerunners, they never fully gave up all of their capacity to produce motion pictures in-house, and in most instances, their continuing level of vertical integration is quite considerable. Many of them, for example, still own large-scale sound stages, and maintain significant pre- and post-production facilities, all of which are also available for lease by outside companies.[6] That said, as any given production project by the majors moves forward, other firms and individuals (such as producers, directors, set designers, and so on) are commonly brought in on a subcontract or limited-term contract basis to perform specific tasks.

Another way in which the majors proceed is to work with smaller production companies, where the latter assume primary responsibility for organizing overall production tasks. The smaller companies involved in these ventures comprise both the major' own subsidiaries and selected independent producers, in projects that may range anywhere from a niche-oriented film to a high-budget blockbuster. In these collaborative ventures, the majors work in a range of protocols, though in probably the majority of cases these grant significant control to the majors over production and editing decisions. Typical procedures include financing, production, and distribution deals, co-production pacts, joint ventures, split rights agreements, "first look" contracts, and any and all combinations of these arrangements. The majors also enter into negative pick-up contracts with independents, that is, agreements to distribute films that have already been completed before being brought to the attention of any given studio. Many independents also unilaterally assemble packages of scripts, actors, directors, and other assets that they then present to the studios in the hope of securing a production or distribution agreement, though few are ever successful (Acheson and Maule, 1994).

The data given in Table 2 shed important light on the evolving world of the majors. The table indicates the number of releases by majors and their subsidiary companies at five-year intervals since 1980. Recall that the release or distribution of films is to be distinguished from the actual production of films, and that the majors release films made by themselves or their subsidiaries as well as films in which independent production companies participate in different degrees. By contrast, releases by subsidiaries owned by the majors are overwhelmingly produced by smaller independent companies. Many of these subsidiaries (e.g. Castle Rock, Miramax, New Line, Orion Pictures) began their existence as independents; others (like Fox

Searchlight or Universal Focus were set up as auxiliary units from the start. Table 2 reveals that since 1980, the number of films released by the majors proper has remained more or less constant at close to a hundred a year, whereas the subsidiaries have greatly increased production, in parallel with production in the independent sector (see below). Thus, although the majors continue to dominate the entire industry, and continue to maintain a significant degree of in-house production capacity, they also rely more and more on smaller subsidiaries and independent production companies in order to spread their risks, to diversify their market offerings, and to sound out emerging market opportunities. In this connection, the business strategies of the motion-picture industry majors strongly resemble those of majors in the music business (Dale, 1997; Hirsch, 2000; Scott, 1999a; Negus, 1998).

<u>The world of the independents</u>. The independent segment of the industry represents an important and flourishing element of the Hollywood complex. As the information set forth in Table 1 suggests, independent film production has increased greatly over the last two decades, with the period of most intense growth being the early to mid-1980s when a boom in independent film production occurred, fuelled by the growth of ancillary markets (Prince, 2000). Independent production companies make films for both domestic and foreign markets, for presentation in any and all formats (theatrical exhibition, television, or home video). They cater to a great variety of market niches, and their outputs include art films for specialized audiences, genre movies of all kinds, documentaries, television commercials, and direct-to-video films (among which a fair proportion is composed of the numerous pornographic films made by firms clustered in the San Fernando Valley). The distribution of films made by independent producers is handled for the most part by independent distribution companies,

many of them highly specialized with respect to market niche (Donahue, 1987; Rosen and Hamilton, 1987).

According to County Business Patterns some three-and-a-half thousand establishments were engaged in motion-picture and video production (NAICS 51211) in the five counties of Southern California in 1999, and the median size of these establishments was just two employees. The vast majority of these establishments comprise a cohort of independent production companies, some of which are allied with majors but most of which operate in an entirely separate sphere. Thus, in face-to-face interviews with representatives of many different firms it was found that significant numbers – perhaps the majority -- of Hollywood independents rarely or never come into contact with a major, and work in an entirely separate sphere of commercial and creative activity. This observation is confirmed by results from a postal survey of independent production companies in Hollywood carried out in the summer of 2001. Out of a total of 115 respondents who were asked if they had engaged in any production deals with majors over the previous twelve months, 83 (72.2%) responded in the negative, and it was evident that some of those who responded positively were actually making a very liberal interpretation of the term "major." Additionally, the average response to a question asking firms to rate the dependence of their business upon the production and distribution divisions of majors on a scale ranging from one (no dependence) to five (high dependence) was a rather low 2.8.

A bipartite or tripartite system? It is to be stressed that the two tiers of productive activity identified above are far from being hermetically sealed off from one another. First of all, there are obvious symbioses between the two in the sense that each generates externalities that are of value to the other, including important flows of new talent from the lower to the upper tier. Second of all, some independent production companies work partially in the one tier and partially in the other, and others move erratically in and out of the sphere of operation of the majors. Indeed, we might well want to qualify any description of the Hollywood production complex as a bifurcated system with the idea that the two tiers described above are actually complemented by a more indistinct circle of companies as represented by independents strongly allied to the majors together with the majors' own subsidiaries. This middle tier provides a shifting but evidently widening bridge between the two more clearly definable segments as represented by the majors proper and the pure independents.

The Geography and Dynamics of the Hollywood Production Complex.

A schematic overview. Hollywood is neither just a metaphor nor just a business model; it is also a unique place, with a very distinctive structure as a production locale. As such, one important approach to understanding its character and evolution is offered by the contemporary theory of industrial districts and regional development. Since there already exists a large general body of literature on this issue (see, for example, Cooke and Morgan, 1998; Porter, 2001; Scott 1993; Storper and Scott, 1995), I shall be brief in what follows.

The key elements of the Hollywood production complex today can be described by reference to four main functional and organizational features (see Figure 3). These are:

1. A series of overlapping production networks in various states of vertical disintegration. The nodes of these networks are composed of majors, independents, and providers of specialized services from script writing to film editing.
2. A local labor market comprising a large number of individuals differentiated according to skills, sensibilities, and forms of habituation. This labor market is constantly being replenished by new talent from all over the rest of North America and the world.

3. An institutional environment made up of many organizations and associations representing firms, workers, and governmental agencies.[7] Some of these organizations exert considerable influence over the developmental trajectory of the industry.
4. A regional milieu whose peculiar geographic and historical features emerge in part in relation to the phenomena identified in points 1, 2, and 3, and which is a repository of crucial resources for the industry. These range from the cinematic traditions that are embedded, as it were, in the very fabric of Hollywood as a production locale, through the conventionalized background landscapes of Southern California, to the synergy-laden potentials offered by proximity to the region's many other cultural-products industries (Molotch, 1996).

These four points all allude to important positive externalities underlying the Hollywood production complex, endowing it with strong competitive advantages in the form of increasing returns to scale and scope and positive agglomeration economies. Such advantages are fundamental in maintaining the status of the region as the leading center of motion-picture production in the world today. They are also major elements of an organizational-geographic framework that functions as a seed-bed of creativity and innovation for the industry (cf. Scott, 1999b). Like many other regional complexes, this framework evinces a periodic tendency to lock-in to relatively fixed configurations over time; yet so far in its long history, the industry has always in the end managed to overcome the many crises of adjustment that have been sparked off by periodic shifts in basic technological and market conditions like the invention of talking movies or the development of new digital technologies.

Two other brief remarks complement the discussion of Figure 3, and will be picked up again in more detail later. First, in spite of the centripetal locational pull of Hollywood, expanding streams of production activities have been moving to distant satellite locations since the 1980s. Second, distribution represents an especially critical adjunct to production. Without effective distribution, the production system could attain neither the scale nor the scope that help to make it such a formidable source of competitive advantages today.

Development and growth, 1980 – 2000. All of this productive activity calls for an enormous variety of worker skills, service inputs and entrepreneurial effort, and Southern California offers an extraordinarily dense concentration of these assets. Most of the industry is clustered in a relatively small geographic area centered on Hollywood itself, but also spilling over into other parts of the region. The detailed geographic outlines of the complex are represented by Figure 4, which shows the locations of individual production companies in the region. Observe the dense swath of firms sweeping from Burbank in the east through the central pivot of Hollywood to Beverly Hills and Santa Monica in the west. Remarkably few production companies are located outside this dense primary cluster.

The motion-picture industry has grown greatly in Los Angeles County over the last few decades, as indicated by Figures 5 and 6, which trace out changes in employment and number of establishments in motion-picture production and in allied services since 1980. The information presented in these two figures is defined in terms of the old standard industrial classification (SIC), as opposed to the new North American industrial classification system (NAICS) that succeeded it in 1997. As it happens, SIC 7812 (Motion Picture and Video Production) is perfectly matched by NAICS 51211 and thus we can extend any data series under the former rubric beyond 1997. SIC 7819 (Services Allied to Motion Pictures) has no corresponding NAICS codes, so that data series defined under this rubric cannot be continued after 1997. Over the period 1980 to 1999, employment in SIC 7812 in Los Angeles County actually declined from 39,318 to 29,262; by contrast, the number of establishments in the same sector increased massively from 983 to 3,237. Employment in SIC 7819 grew from 10,946 to 120,000 from 1980 to 1997, and the number of establishments in the same sector expanded from 509 to 2,326, which clearly reflects the great rise in demand for intermediate inputs to the industry, including special effects and other digital services (Hozic, 1999, 2001; Scott, 1998). Thus, taken as a whole, motion-picture production and service activities (SIC 7812 plus SIC 7819) in Los Angeles County grew at a rate of 194.0% for employment and 248% for establishments between 1980 and 1997. This trend runs parallel to the considerable increase in the total number of films produced in the United States over the same period (from 214 in 1980 to 684 in 2000, according to MPAA records). The global deregulation of television in the 1980s and 1990s no doubt also helped to stimulate this expansion. In the same period, a significant downsizing of establishments occurred in SIC 7812, in association with a corresponding increase in average establishment size in SIC 7819. In the former case, establishment size in Los Angeles County fell from 39.9 to 9.0 employees on average; in the latter, it rose from 21.5 to 51.6. It is tempting to interpret these data in terms of continued vertical disintegration in production and increasing internal economies of scale in associated service providers, but in the absence of suitable statistics at the individual firm level, analysis of the precise mechanisms at work here must await further research.

Figures 5 and 6 indicate that the growth of the motion-picture industry in Southern California has been accompanied by parallel expansion of the industry (and most notably by an increase in the number of small establishments) in the rest of the United States. Even so, Southern California remains the primary agglomeration in the country, followed in distant second place by New York. In 1980, combined employment in SICs 7812 and 7819 in Los

Angeles County represented 63.3% of the US total. In 1997, the figure was 61.4%. Hence, the industry not only continued to grow in absolute terms in Los Angeles over the 1980s and 1990s, but maintained its high level of relative geographic concentration as well.

Satellite production locations. Despite this outstanding historical performance, there has been much decentralization of production activities from Hollywood to satellite locations in recent years. Decentralization occurs for two main reasons, one being the search for realistic outdoor film locations (which has always been a feature of the industry's operations), the other being the search for reduced production costs (which is a more recent phenomenon). In the vernacular of contemporary Hollywood, firms engaging in these two types of decentralization are referred to as "creative runaways" and "economic runaways" respectively (Monitor, 1999).

A number of studies have shown that the latter kind of decentralization has been increasing rapidly for film-shooting activities since the late 1980s (Coe, 2001; EIDC, 2001; ITA, 2001; Monitor, 1999). Most of it is directed to Canada, Australia, Britain, and Mexico, with Canada receiving 81% of the total. The Monitor Company (1999) estimates that the total dollar loss to the United States as a result of economic runaways was $2.28 billion in 1998. The presumed Canadian share of this total is $1.85 billion. By contrast, the Canadian Film and Television Production Association estimates that total revenues from foreign film shooting in Canada in the 1999/2000 season was just $1.00 billion[8] (CFTPA, 2001). Even given the discrepancy between these two estimates, the total loss to Hollywood is evidently of major proportions, and the point is underlined by the fact that of 1,075 US film and television projects surveyed in 1998, 285 involved runaway production to foreign countries (Monitor, 1999). According to EIDC (2001), most of this activity is currently accounted for by television productions, with movie-of-the-week programs being the staple item.

Figure 7 provides a simple analytical language for thinking about this issue. The central elements of the figure are average cost curves for a particular package of production tasks (in the present instance, film shooting) at two different locations. One of these, Hollywood, is the home base, the other is a satellite location. The cost curves depict typical increasing and decreasing returns effects as a function of the size of any given package, with $\underline{c}_1$ representing production in Hollywood, and $\underline{c}_2$ production in the satellite location. We may assume that there are fixed set-up costs at the satellite location so that $\underline{c}_2$ is greater than $\underline{c}_1$ at relatively low levels of production; but because of various advantages at the satellite location, $\underline{c}_2$ falls below $\underline{c}_1$ at higher levels. Among these advantages we may count relatively low wages, low rental rates for sound stages and equipment, advantageous foreign exchange rates, governmental tax credits and subsidies, and so on (ITA, 2001). Any shift of production from the home base to a satellite location also entails transactions costs, including expenses for transport of personnel and equipment, communications charges between the home base and the satellite as production is proceeding, and perhaps most importantly of all, implicit costs due to diminished managerial and creative control over day-to-day work activities and hence over the quality of the final product. These transactions costs (which may, like production costs, be subject to increasing and decreasing returns) are apt to be particularly onerous where a high-budget feature film is concerned, but relatively low in the case of a more routine television program with limited production values and frequent repetition of the basic package specifications. The interplay between average production costs and transactions costs at different levels of scale then determines whether runaway production is economically feasible in any given case. As shown in Figure 7, a strong production cost advantage at the satellite location can be completely eliminated where transactions costs are high; then, as transactions costs are lowered there will be a greater and greater incentive to shift production to the satellite location. Eventually, if average transactions costs fall from $\underline{t}_1$ to $\underline{t}_2$, as in Figure 7, production at the satellite is likely to occur for task packages larger than $\underline{p}$.

This exercise clarifies the interactions between all of the various costs brought into play in runaway production relative to the size and complexity of the tasks to be completed. In view of this analysis, we can obtain a clearer grasp of just why (relatively standardized) television films are more susceptible to runaway production than feature films. And we can extend the analysis by increasing the number of possible satellite locations. For example, a significant appreciation of the Canadian dollar from its current exchange rate of C$1.54 per US$1.00 to C$1.15 per US$1.00, will just offset the reputed 25% cost advantage of Canada for film production, therefore making substitute satellite locations more attractive. In view of this logic, there is every likelihood that Hollywood will continue indefinitely to lose certain kinds of production to one country or another, subject to the availability of adequate sound stage facilities and crews at alternative locations. A dramatic parallel case can be found in the Los Angeles clothing industry where a steady increase in offshore "full-package" contracting has been occurring since the late 1980s (Kessler, 1999; Scott, 2002). So far, runaway production has not seriously undermined the vitality of the Hollywood film industry, and it may well never become life threatening, at least in the more creative segments of the industry. This inference is based on a presumption (a) that the towering competitive advantages of Hollywood in pre- and post-production work will continue to prevail, and (b) that films requiring close supervisory control and complex customized inputs at all stages of production will continue to constitute a significant core of the industry's product range. Accordingly, and even though the great flow of shooting activities to Canada has unquestionably given a developmental boost to the motion-picture industries of Toronto and Vancouver where most of the work takes place (cf. Coe, 2000a, 2000b, 2001), there seems little reason to suppose that the locational attractions of Hollywood are on the point of dissipation. In the same way, it is surely implausible to claim, along with Clough (2000), that as a consequence of the increasing use of special effects and digital technologies in the industry, its center of gravity in California may be shifting toward the Bay Area. The claim is yet more implausible (despite the defection of Industrial Light and Magic to Marin County in the late 1970s) in view of the extensive development of precisely a robust cluster of digital media and special effects firms in Southern California over the last decade (Scott, 1998).

In brief, Hollywood's competitive advantages -- deriving from its overlapping transactional networks, the skills and creativity of its workers, its dense institutional underpinnings (including the many guilds, labor unions, and producers' associations), its roots in a supportive regional milieu (one of whose attributes is the diverse and striking visual imagery of Southern California), and its proximity to related cultural-products industries – would appear to afford it some durability as a going concern. Its current vibrancy is all the more assured when we add to these advantages, the benefits that it derives from its unparalleled distribution system, (Wildman and Siwek, 1988). Accordingly, the pronouncements of Aksoy and Robins (1992, p. 19) to the effect that "Hollywood is now everywhere … production now moves almost at will to find its most ideal conditions, and with it go skills, technicians, and support services," and of Hozic (2001, p. 153) who talks about "Hollywood's exodus into worldwide locations," are both exaggerated and premature.

Distribution, Markets, and Competition

Hollywood today is a large-scale, many-sided, cultural-production and franchising complex, disgorging an endless variety of products designed for many different market niches. The linchpin of the entire system is the high-concept, mass-appeal blockbuster, that is, a big-budget film with a simple but climactic central narrative, an uplifting finale, a major star presence, and possessing many marketable assets (Branston, 2000; Garvin, 1981; Wasko, 1994; Wyatt, 1994). The origins of this type of film are usually traced back to Jaws in the mid-1970s, with Titanic as its ultimate expression to date.[9] The market for all films is risky, and the high-concept blockbuster faces especially hazardous prospects. Only a few such films actually recoup their costs directly from theatrical exhibition, but the ones that do generally compensate for the ones that do not (de Vany and Walls, 1997). In addition, the studios now also reap large revenues from repackaging films for home video, broadcast and cable television licensing, product placements and spin-off products such as recorded music, games, toys, fashions, books, theme park rides, and so on.

The distribution system. Distribution has always been a vital element of the motion-picture industry. The distribution system disseminates the industry's products on wider markets, pumps revenues and information back into Hollywood, and hence is a basic condition of the sustained economic well-being of the central agglomeration (see Figure 3).

Employment in the distribution branch of the business is densely developed in Los Angeles alongside the production activities that it serves. In 1999, Los Angeles County could claim 22,399 employees and 299 establishments in NAICS 51212 (Motion-Picture and Video Distribution), compared with 27,669 employees and 706 establishments in the entire United States. Distribution is the segment of the industry where oligopoly is most in evidence. For the

United States as a whole in 1997, the four-firm concentration ratios in NAICS 51212 was 74.6%, as compared with equivalent ratios of 33.5% and 16.4% in NAICS 51211 (Motion Picture and Video Production) and NAICS 51219 (Post-Production and Other Motion Picture and Video Industries), respectively.[10] This high level of concentration derives from the internal economies of scale that are inherent to distribution activities, especially where, as in the film industry, they assume the form of extensive networks with strong central management and widely-diffused regional offices. These networks can then be organized on the basis of repetitive operating rules in which the transmission of the variable product itself becomes relatively routinized. The economics of blockbuster production, with its associated logic of high-intensity, saturation marketing and distribution, greatly intensifies this tendency to concentration, especially given that the marketing and distribution costs of many blockbusters today are equal to or even greater than their actual production costs (Cones, 1997).

For any given blockbuster, prevailing marketing/distribution practices typically entail intense publicity campaigns over a short period of time, and exhibition in many different theaters simultaneously.[11] These practices, combined with the huge sums of money at stake, make it imperative for the majors to engage in close relational contracting with owners of theater chains to secure assured and regular bookings well in advance of the publicized release date of their films. By the same token, there are certainly strong incentives to vertical reintegration of the entire production-distribution-exhibition chain in the motion-picture industry (cf. Blackstone and Bowman, 1999; Waterman, 1982), and vertical integration has indeed been on the increase of late. This development can be traced back to the Reagan era when the Antitrust Division of the Justice Department began to take a more tolerant attitude toward infringements of the Paramount decision (Prince, 2000), and by the early 1990s, according to Prindle (1993), the majors owned over ten percent of all theaters in the United States.

In light of these remarks, it is not surprising to observe that the same bifurcation characteristic of production activities in the Hollywood motion-picture industry is also -- and even more – characteristic of distribution. As Table 3 indicates, nine of the top ten film distributors in the United States are either majors or subsidiaries of majors, and the one independent shown in the table (USA Films) has only recently displaced MGM from the top ten. The point is brought further home by an examination of detailed box-office statistics for films distributed in the United States. Consider Figure 8, which shows frequency counts of domestic box-office returns for major and independent producers. The figure is based on 142 films released by majors, and 304 films released by independents in 1999. A strikingly bimodal structure characterizes the pattern of frequencies displayed in Figure 8, and the two counts overlap only in a small intermediate zone. For independent distributors, the average domestic box-office per film is $2.3 million, and for majors it is $46.1 million. So great is the discrepancy between the two, there might well be a *prima facie* case for inferring that the majors are in some sense crowding the independents out of more lucrative markets (Daly, 1980). The business concentration of the majors is magnified by what Cones (1997) refers to as their "creative accounting" practices, where revenues are creamed off at the distribution phase, thus reducing the flow-back to production and by the same token diminishing claims for payment by outside contractors based on a percentage of producers' revenues.

In a study of motion-picture distribution in Canada, Globerman and Vining (1987) have claimed that because there is rotating leadership among the larger distributors, and low barriers to entry at the bottom end of the system, the market is "workably competitive." Whatever the situation in Canada may be, the very marked concentration in the distribution sector in the United States, and the difficulties of outsider penetration into the top tier of the sector mean that significant impediments to competition exist. This situation can scarcely be qualified as being anything but oligopolistic.

The globalization of Hollywood. Astute marketing and distribution are crucial not only to the majors' domination of domestic markets, but to their ever-growing incursions on foreign markets too (Hoskins et al., 1997; Jarvie, 1998; Scott, 2000).

Table 4 shows the main pattern of US film and tape rentals to other countries over the period from 1986 to 1999. The first thing to notice from the data displayed is the tremendous growth in the total volume of exports since 1986 (364.7% growth in terms of constant dollars compared with 28.9% growth in domestic box office returns). Europe is the main destination with 65.5% of all exports in 1999, followed by Asia and the Pacific region with 17.4%. Britain, Germany, the Netherlands, France, and Japan are the top individual importers. Two of the majors provided unpublished information to the author indicating that they own distribution facilities in all of the main countries mentioned in Table 4, as well as in a number of lesser markets such as Austria, Finland, Israel, Hong Kong, Singapore, Panama, and Peru. In yet other markets the majors engage in joint ventures and contractual agreements with local distributors. It is not uncommon for the majors to have a main office in the largest city in their principal foreign markets (almost always in geographical association with an agglomeration of local audiovisual firms), together with a number of field offices in the provinces (cf. Bonnell, 1996; Nachum and Keeble, 2000). Since 1995 the costs of Hollywood feature films released by the majors have on average consistently exceeded their domestic box office returns, so that foreign box-office earnings are now critical to overall profitability (cf. Vogel, 1998). Thus, contrary to views expressed from time to time by European critics about the “dumping” of Hollywood films on foreign markets, this is not strictly the case in economic terms, even if the charge may ring a sympathetic chord on a more cultural register.

Strategic trade rather than dumping is Hollywood’s trump card in international commerce. In contradistinction to classical atomized competition between individual free-wheeling firms, strategic trade is an outcome of imperfect competition in the context of increasing-returns effects, and is hence a source of rents over and above normal profits. In the case of the motion-picture industry, these effects derive in important ways from the potent agglomeration economies of Hollywood itself and from efficiencies of size in distribution, and it is almost certainly these endowments that constitute the primary source of the strategic prowess that has pushed American films so firmly to the fore in so many different foreign markets. Concomitantly, the relatively less well-developed character of these endowments in the film industries of other countries severely impedes them from making stronger inroads into American markets (Chase, 2000; Waterman and Jayakar, 2000). There are no doubt also marketing difficulties that foreign films in the United States face as a result of peculiarities of language and culture, though it is difficult to understand why these should operate necessarily in one direction but not in the other, all else being equal. In fact, all else is far from being equal, because over the entire post-War period, large US-based multinational corporations have honed their competencies to a fine point in matters of commercial propaganda and far-flung product distribution, perhaps most especially in media, entertainment, and other culturally-charged products. Even if the multinationals of other countries are rapidly catching up in this respect, the pioneering efforts of US firms have more or less naturalized American cinematic idioms on many foreign markets, making Hollywood films highly competitive with purely local products

(Finney, 1996; Waterman and Jayakar, 2000). Furthermore, under the provisions of the Webb-Pomerane Act of 1918, monopolistic practices on the part of American firms are explicitly permitted on foreign markets, enabling them to penetrate and dominate those markets more effectively. Thus, block-booking by US-owned film distributors is prevalent in foreign markets, even though it is illegal in the United States.

The rents generated by strategic trade can almost always be much enhanced by agencies of collective action, such as industry associations and governmental bodies. A standard maneuver in this regard is to work on clearing away obstacles that limit access to foreign markets, thus releasing new rounds of growth based on self-perpetuating increasing-returns effects. This is certainly a principal objective of the powerful MPAA, which has offices in Washington, DC., and Los Angeles, as well as in several foreign countries. The MPAA is a highly-financed cartel representing the combined voice of the majors, and it has proven itself to be extraordinarily aggressive and successful in shaping trade agendas in audiovisual products, as well as in many other political tasks of concern to the industry. Thanks to the lobbying efforts of the MPAA, Hollywood has always received untold help from the US Commerce Department and the US State Department (Segrave, 1997). Under the banner of free trade and fair competition, it has long carried out intensive lobbying campaigns with different government agencies in the effort to pressure foreign countries to lower barriers to the strategic trading activities of its members. Independent distributors, too, have a collective representative in the guise of the American Film Marketing Association (AFMA), which is based in Los Angeles and counts over 170 different companies as members. Besides vigorous defense of its members' interests in general, AFMA also holds the annual American Film Market in Santa Monica, which has grown over the last two decades to become the world's largest motion-picture fair, attended by more than 7,000 people from 70 countries.

The very success of American motion pictures on foreign markets has, of course, given rise to a world-wide debate not just about the economics of trade in audiovisual products, but also about the cultural predicaments that follow in its train (Chase, 2000; Feigenbaum, 1999). The issue came to a head in the GATT negotiations of 1993, when, under the prompting of the European Union backed up strongly by France, audiovisual products were exempted from the trade liberalization provisions contained in the final agreement. It is, however, an open question as to how long the exemption will survive in its present form under the newly-constituted WTO. In any case, stubborn cultural and political resistances to the globalization of Hollywood are evident all over the world, from Canada to China and from France to South Korea. And since culture is always, and in profound ways, about identity, ideology, and power, as much as it is about profits and cash flow, the current situation poses predicaments that call for some more imaginative framework of supra-national regulation than approaches based on the erroneous proposition that cultural products are essentially just inert commodities like steel or car parts.

Conclusion

With the steady improvement of electronic methods of distribution and information diffusion, the predicaments alluded to in the previous paragraph are liable to intensify greatly. This remark reflects in part the speed with which new communications technologies are currently demolishing international borders; it also is based on an expectation that the majors are just as likely to dominate content supply in the new order as they have done in the old. More accurately, we should say that if, in theory, new electronic means of communications allow small producers to tap readily into global markets, the massive resources of the majors will still in all likelihood enable them to gain a decisive edge in publicity and marketing, and hence in sales.

Over a more distant time horizon, the situation becomes increasingly murky. For one thing, as I have argued elsewhere (Scott, 2001), new and revivified cultural-products agglomerations are on the rise in many different parts of the world today. Notwithstanding the current hegemony of Hollywood, the ingredients of its success are not in principle forever locked in at one place, and it is entirely conceivable that other regions may eventually mount credible challenges to it on global markets, even granted the enormous hurdles that exist. For another thing, policy-makers in other countries are now turning their attention to the tasks of building indigenous cultural-products industries with much greater capacities for market contestation than in the past. In the European Union, for example, the Media Plus Program initiated in January 2001 (in succession to the earlier Media I and Media II programs) is now engaged in a many-sided effort to improve the international competitiveness of the European audiovisual industries, including a push to put more effective distribution systems into place. The increasing trend to international co-productions lends further complexity to these matters. Moreover, expansionist European media corporations such as Vivendi, Bertelsmann, or Polygram are vigorously scouring the world for new production and marketing opportunities while at the same time strengthening their roots in their home territories. Quite apart from these developments, the notorious unpredictability of consumer tastes in matters of popular culture means that Hollywood production companies can never rest on their laurels. They are always potentially subject to devastating competition from unexpected quarters, and despite Hollywood's long domination of world-wide film markets, its ascendance can never be absolute or final. Indeed, there have been numerous instances in the past when it has faltered even on its home terrain, including the notable period in the late 1960s when imports grew to the point where they represented fully two-thirds of all the films released in the United States (Schatz, 1997).

If these comments point to potential perils ahead, Hollywood in its current incarnation is nonetheless one of the most remarkable examples of a successful industrial agglomeration anywhere in the world. Its size and complexity, its longevity, its global impact, and the mystique that surrounds its products, all combine to bring it into sharp relief. It is all the more fascinating because unlike many other case-study industrial districts, (Silicon Valley, Orange County, or Boston's Route 128, for example), its outputs trade on a purely cognitive register. For this reason alone, Hollywood is one of the most arresting examples of the burgeoning cultural-products agglomerations that are on the rise all over the world today, no matter whether their stock-in-trade is film, multimedia, music, fashion, or any other vehicle of aesthetic and semiotic expression.

In the present paper, I have described the mainsprings of the Hollywood production complex, with special reference to its status as both a local and a global system of relationships. I have attempted, in particular, to lay out a new map of Hollywood and the world that is attentive to the ways in which this local/global system reflects the industry's peculiar tendency to structural and functional bifurcation. Much more research, of course, is needed on particular aspects of Hollywood's operations, including many questions about new digital technologies, creativity and innovation, local labor markets, the institutional fabric of the industry, agglomeration and decentralization processes, corporate organization, marketing, the dynamics of demand, and so on. The discussion presented here offers a conceptual and empirical context that eases the task of approaching these and allied questions. The discussion also points firmly, if laconically, to the steady convergence that appears to be occurring between the economic and the cultural in contemporary global capitalism, and to a few of the important analytical problems raised by this turn of events.

References

Acheson, K., & Maule, C. J. (1994). Understanding Hollywood's organization and continuing success. *Journal of Cultural Economics*, 18, 271-300.

Aksoy, A., & Robins, K. (1992). Hollywood for the 21st century: global competition for critical mass in image markets. *Cambridge Journal of Economics*, 16, 1-22.

Anderson, C. (1994). *HollywoodTV: The Studio System in the Fifties*. Austin, TX.: University of Texas Press.

Balio, T. (1996). Adjusting to the new global economy: Hollywood in the 1990s. In A. Moran (Ed.), *Film Policy: International, National, and Regional Perspectives* (pp. 23-38). London: Routledge.

— (1998). A major presence in all the world's major markets: the globalization of Hollywood in the 1990s. In S. Neale & M. Smith (Eds.), *Contemporary Hollywood Cinema* (pp. 58-73). London: Routledge.

Blackstone, E. A., & Bowman, G. W. (1999). Vertical integration in motion pictures. *Journal of Communication*, 49, 123-139.

Blair, H., & Rainnie, A. (2000). Flexible films? *Media, Culture and Society*, 22, 187-204.

Bonnell, R. (1996). *La Vingt-Cinquième Image: Une Economie de l'Audiovisuel*. Paris: Gallimard.

Bordwell, D., Staiger, J., & Thompson, K. (1985). *The Classical Hollywood Cinema: Film Style and Mode of Production to 1960*. New York: Columbia University Press.

Branston, G. (2000). *Cinema and Cultural Modernity*. Buckingham: Open University Press.

Cassady, R. (1958). Impact of the Paramount decision on motion-picture distribution and price making. *Southern California Law Review*, 31, 150-180.

Caves, R. E. (2000). *Creative Industries: Contacts between Art and Commerce*. Cambridge, MA.: Harvard University Press.

CFTPA (2001). *Profile 2001: Canadian Independent Production: Growth Opportunities in a Period of Consolidation*. Ottawa: Canadian Film and Television Production Association.

Chase, A. (2000). *Globalization versus localization: cultural protection and trade conflict in the world entertainment industry*. Los Angeles: Paper presented at the annual meeting of the International Studies Association.

Chistopherson, S., & Storper, M. (1986). The city as studio, the world as back-lot: the impact of vertical disintegration on the location of the motion-picture industry. *Environment and Planning D: Society and Space*, 4, 305-320.

Coe, N. M. (2000a). On location: American capital and the local labor market in the Vancouver film industry. *International Journal of Urban and Regional Research*, 24, 79-91.

— (2000b). The view from out West: embeddedness, inter-personal relations and the development of an indigenous film industry in Vancouver. *Geoforum*, 31, 391-407.

— (2001). A hybrid agglomeration? The development of a satellite-marshallian industrial district in Vancouver's film industry. *Urban Studies*, 38, 1753-1775.

Cones, J. W. (1997). *The Feature Film Distribution Deal*. Carbondale and Edwardsville: Southern Illinois University Press.

Cooke, P., & Morgan, K. (1998). *The Associational Economy: Firms, Regions, and Innovation*. Oxford: Oxford University Press.

Creton, L. (1994). *Economie du Cinéma: Perspectives Stratégiques*. Paris: Nathan.

— (1997). *Cinéma et Marché*. Paris: Armand Colin.

Dale, M. (1997). *The Movie Game: The Film Business in Britain, Europe, and America*. London: Cassell.

Daly, D. A. (1980). *A Comparison of Exhibition and Distribution Patterns in Three Recent Feature Motion Pictures*. New York: Arno Press.

de Vany, A., & Walls, W. D. (1997). The market for motion pictures: rank, revenue, and survival. *Economic Inquiry*, 35, 783-797.

DeFillippi, R. J., & Arthur, M. B. (1998). Paradox in project-based enterprise: the case of film-making. *California Management Review*, 40, 125-139.

EIDC (2001). *MOWs - A Three-Year Study: An Analysis of Television Movies of the Week, 1997-1998, 1998-1999, and 1999-2000*. Los Angeles: Entertainment Industry Development Corporation.

Feigenbaum, H. B. (1999). The production of culture in the postimperialist era: the world versus Hollywood? In D. G. Becker & R. L. Sklar (Eds.), *Postimperialism and world politics*. Westport, CN: Praeger.

Finney, A. (1996). *The State of European Cinema: A New Dose of Reality*. London: Cassell.

Garvin, D. A. (1981). Blockbusters: the economics of mass entertainment. *Journal of Cultural Economics*, 5, 1-20.

Globerman, S., & Vining, A. (1987). *Foreign Ownership and Canada's Feature Film Distribution Sector: An Economic Analysis*. Vancouver, B.C.: The Fraser Institute.

Gomery, D. (1998). Hollywood corporate business practice and periodizing contemporary film history. In S. Neale & M. Smith (Eds.), *Contemporary Hollywood Cinema* (pp. 47-57). London: Routledge.

Hirsch, P. M. (2000). Cultural industries revisited. *Organization Science*, 11, 356-361.

Hoskins, C., McFadyen, S., & Finn, A. (1997). *Global Television and Film: An Introduction to the Economics of the Business*. Oxford: Clarendon Press.

Hozic, A. A. (1999). Uncle Sam goes to Siliwood: of landscapes, Spielberg, and hegemony. *Review of International Political Economy*, 6, 289-312.

— (2001). *Hollyworld: Space, Power and Fantasy in the American Economy.* Ithaca: Cornell University Press.

Huettig, M. (1944). *Economic Control of the Motion Picture Industry*. Philadelphia: University of Pennsylvania Press.

ITA (2001). *Impact of the Migration of US Film and Television Production*. Washington, D.C.: US Department of Commerce, International Trade Administration.

Jarvie, I. (1998). Free trade as cultural threat: American film and TV exports in the post-War period. In G. Nowell-Smith & S. Ricci (Eds.), *Hollywood and Europe: Economics, Culture, and National Identity, 1945-95*. London: British Film Institute.

Kessler, J. A. (1999). The North American Free Trade Agreement, emerging apparel production networks and industrial upgrading: the Southern California/Mexico connection. *Review of International Political Economy*, 6, 565-608.

Kranton, R. E., & Minehart, D. F. (2000). Networks versus vertical integration. *RAND Journal of Economics*, 31, 570-601.

Litman, B. R. (1998). *The Motion Picture Mega-Industry*. Boston: Allyn and Bacon.

— (2001). Motion picture entertainment. In W. Adams & J. Brock (Eds.), *The Structure of American Industry* (pp. 171-198). Upper Saddle River, NJ: Prentice Hall, Tenth Edition.

Litwak, M. (1986). *Reel Power: the Struggle for Influence and Success in the New Hollywood*. New York: Morrow.

Maltby, R. (1998). Nobody knows everything: post-classical historiographies and consolidated entertainment. In S. Neale & M. Smith (Eds.), *Contemporary Hollywood Cinema* (pp. 21-44). London: Routledge.

Mezias, J. M., & Mezias, S. J. (2000). Resource partitioning, the founding of specialist firms, and innovation: the American feature film industry, 1912-1929. *Organization Science*, 11, 1912-1929.

Molotch, H. (1996). LA as design product: how art works in a regional economy. In A. J. Scott & E. W. Soja (Eds.), *The City: Los Angeles and Urban Theory at the End of the Twethieth Century* (pp. 225-275). Berkeley and Los Angeles: University of California Press.

Monitor (1999). *US Runaway Film and Television Production Study Report*. Santa Monica: Monitor Company.

Nachum, L., & Keeble, D. (2000). Localized clusters and the eclectic paradigm of FDI: film TNCs in central London. *Transnational Corporations*, 9, 1-38.

Negus, K. (1998). Cultural production and the corporation: musical genres and the strategic management of creativity in the US recording industry. *Media, Culture , and Society*, 20, 359-379.

Porter, M. E. (2001). Regions and the new economics of competition. In A. J. Scott (Ed.), *Global City-Regions: Trends, Theory, Policy* (pp. 139-157). Oxford: Oxford University

Press.

Prince, S. (2000). *A New Pot of Gold: Hollywood under the Electronic Rainbow, 1980-1989.* New York: Charles Scribner's Sons.

Prindle, D. F. (1993). *Risky Business: The Political Economy of Hollywood*. Boulder: Westview Press.

Puttnam, D., & Watson, N. (1998). *Movies and Money*. New York: Knopf.

Robins, J. A. (1993). Organization as strategy: restructuring production in the film industry. *Strategic Management Journal*, 14, 103-118.

Rosen, D., & Hamilton, P. (1987). *Off-Hollywood: The Making and Marketing of Independent Films*. New York: Grove Weidenfeld.

Schatz, T. (1983). *Old Hollywood/New Hollywood Ritual, Art and Industry*. Ann Arbor: UMI Research Press.

— (1997). The return of the Hollywood system. In P. Aufderheide (Ed.), *Conglomerates and the Media* (pp. 73-106). New York: The New Press.

Scott, A. J. (1993). *Technopolis: High-Technology Industry and Regional Development in Southern California*. Berkeley and Los Angeles: University of California Press.

— (1998). From Silicon Valley to Hollywood: growth and development of the multimedia industry in California. In H. J. Braczyck, P. Cooke & M. Heidenreich (Eds.), *Regional Innovation Systems* (pp. 136-162). London: UCL Press.

Scott, A. J. (1999a). The US recorded music industry: on the relations between organization, location, and creativity in the cultural economy. *Environment and Planning A*, 31, 1965-1984.

— (1999b). The cultural economy: geography and the creative field. *Culture, Media, and*

Society, 21, 807-817.

— (2000). French cinema: economy, policy and place in the making of a cultural products industry. *Theory, Culture and Society*, 17, 1-38.

— (2001). Capitalism, cities and the production of symbolic forms. *Transactions of the Institute of British Geographers*, 26, 11-23.

— (2002). Competitive dynamics of Southern California's clothing industry: the widening global connection and its local ramifications. *(Forthcoming)*.

Segrave, K. (1997). *American Films Abroad: Hollywood's Domination of the World's Movie Screens*. Jefferson, NC.: McFarland.

Smith, M. (1998). Theses on the philosophy of Hollywood history. In S. Neale & S. Smith (Eds.), *Contemporary Hollywood Cinema* (pp. 3-20). London: Routledge.

Storper, M., & Christopherson, S. (1987). Flexible specialization and regional industrial agglomerations: the case of the US motion-picture industry. *Annals of the Association of American Geographers*, 77, 260-282.

Storper, M. (1989). The transition to flexible specialization in the US film industry: external economies, the division of labor, and the crossing of industrial divides. *Cambridge Journal of Economics*, 3, 273-305.

— (1993). Flexible specialization in Hollywood: a reply to Aksoy and Robins. *Cambridge Journal of Economics*, 17, 479-484.

Storper, M., & Scott, A. J. (1995). The wealth of regio ns: market forces and policy imperatives in local and global context. *Futures*, 27, 505-526.

Véron, L. (1999). The competitive advantage of Hollywood industry. *Columbia International Affairs on Line*, https//www.cc.columbia.edu/sec/dlc/ciao/wps/ve101.

Vogel, H. L. (1998). *Entertainment Industry Economics: A Guide for Financial Analysis*. Cambridge: Cambridge University Press.

Wasko, J. (1994). *Hollywood in the Information Age: Beyond the Silver Screen*. Oxford, UK: Polity Press.

Waterman, D. (1982). The structural development of the motion-picture industry. *American Economist*, 26, 16-27.

Waterman, D., & Jayakar, K. P. (2000). The competitive balance of the Italian and American film industries. *European Journal of Communication*, 15, 501-528.

Wildman, S. S., & Siwek, S. E. (1988). *International Trade in Films and Television*. Cambridge, MA.: Ballinger.

Wyatt, J. (1994). *High Concept: Movies and Marketing in Hollywood*. Austin: University of Texas Press.

— (1998). The formation of the major independent: Miramax, New Line, and the new Hollywood. In S. Neale & M. Smith (Eds.), *Contemporary Hollywood Cinema* (pp. 74-90). London: Routledge.

Table 1. Feature films released in the United States by majors and independents.[a]

Year	Releases		
	Majors	Independents	Total
1980	134	57	191
1985	138	251	389
1990	158	227	385
1995	212	158	370
2000	191	270	461

[a]Note that in this table, the term majors refers to both the majors proper and their subsidiary releasing companies.
Source: Motion Picture Association of America, 2000 US Economic Review (http://www.mpaa.org/useconomicreview/).

Table 2. Films released by majors and their subsidiaries, 1980 – 2000.

Year	Releases by majors less releases by subsidiaries	Releases by majors' subsidiaries	Subsidiaries as a percent of majors
1980	94	0	0
1985	103	12	11.7
1990	109	27	24.8
1995	127	85	66.9
2000	104	75	72.1

Source: Calculated from information in: Academy of Motion Picture Arts and Sciences, Annual Index to Motion Picture Credits. Subsidiaries involved in these counts are: Castle Rock Entertainment, Dimension Films, Fine Line Features, Fox Searchlight, Miramax, New Line Distribution, October Films, Orion Pictures, Orion Film Classics, Paramount Classics, Sony Classics, Tristar Pictures, Triumph Releasing, Twentieth Century Fox International Classics, United Artists Films, Universal Focus and Warner Classics. Note that some of these entities have operated as independents at various times, and some are no longer in existence. They are included in the present counts only for years when they actually functioned as subsidiaries of majors. Buena Vista Pictures is the principal distributing arm of Disney and is treated as a major. The discrepancies observable between the data given in Table 1 and Table 2 stem from the different sources used.

Table 3. Top ten film distributors in the United States, 2000.

Distribution company	Number of films released	Domestic box-office revenue $ millions	Average per film
Buena Vista (Disney)	19	1,089	57.3
Universal	15	1,053	70.2
Warner Brothers	22	863	39.2
Twentieth-Century Fox	14	849	60.6
Paramount	12	792	66.0
Dreamworks	10	668	66.8
Sony	22	664	30.2
Miramax (Disney)	25	507	20.3
New Line (Warner)	14	388	27.7
USA Films	17	202	11.9
Totals:	170	7,075	41.7

Source: Hollywood Reporter, Film 500, August, 2001.

Table 4. US exports in the form of film and tape rentals; percentage values by destination.

Destination	1986	1991	1996	1999
France	10.2	8.6	8.6	7.8
Germany	7.5	9.6	10.5	13.2
Italy	10.0	7.3	4.7	5.3
Netherlands	15.2	17.5	17.4	11.5
Spain	-	5.1	5.9	6.6
Sweden	-	1.8	1.4	1.2
United Kingdom	10.6	11.0	9.8	13.4
Europe	60.3	66.5	64.9	65.5
Australia	10.3	3.4	4.8	4.6
Japan	8.3	11.5	8.7	7.7
Republic of Korea	-	0.8	1.8	1.1
Taiwan	-	0.5	0.7	1.1
Asia and Pacific	22.1	18.3	19.3	17.4
Brazil	-	0.8	2.2	2.9
Canada	10.4	8.7	6.8	5.2
Mexico	1.3	0.9	1.3	1.8
Americas	17.9	12.5	13.0	13.0
South Africa	-	-	1.1	1.0
Africa	-	1.0	1.2	1.1
Middle East	-	0.5	0.8	1.2
World ($ millions, current)	1,071	1,962	4,982	7,556
World ($ millions, constant)	1,628	2,400	5,290	7,566

Source: US Bureau of Economic Analysis, Survey of Current Business.

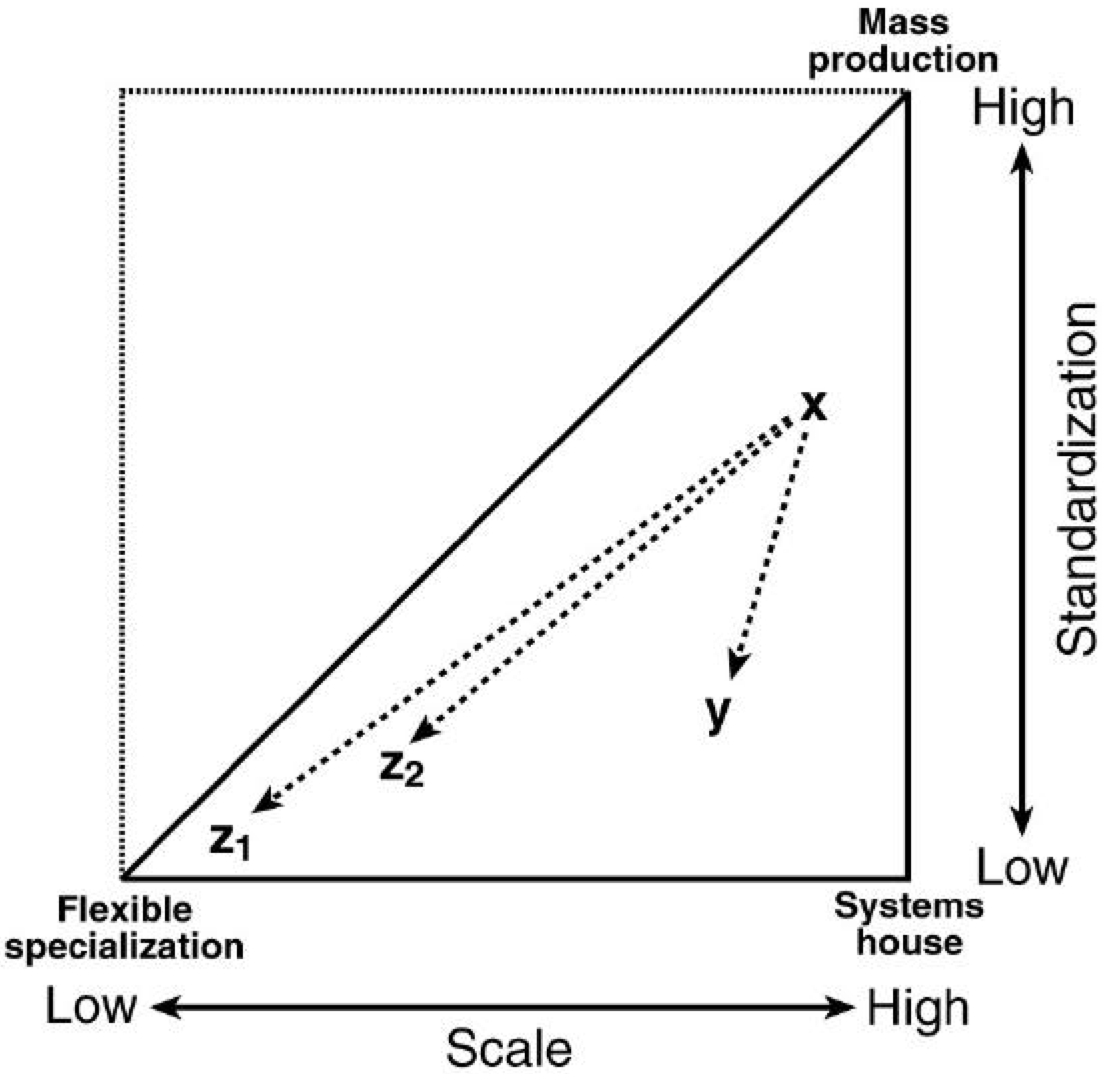

Figure 1. Schema of basic organizational possibilities in industrial systems: x and y represent old- and new-style studios, respectively; z_1 and z_2 represent common kinds of independent production companies or service suppliers.

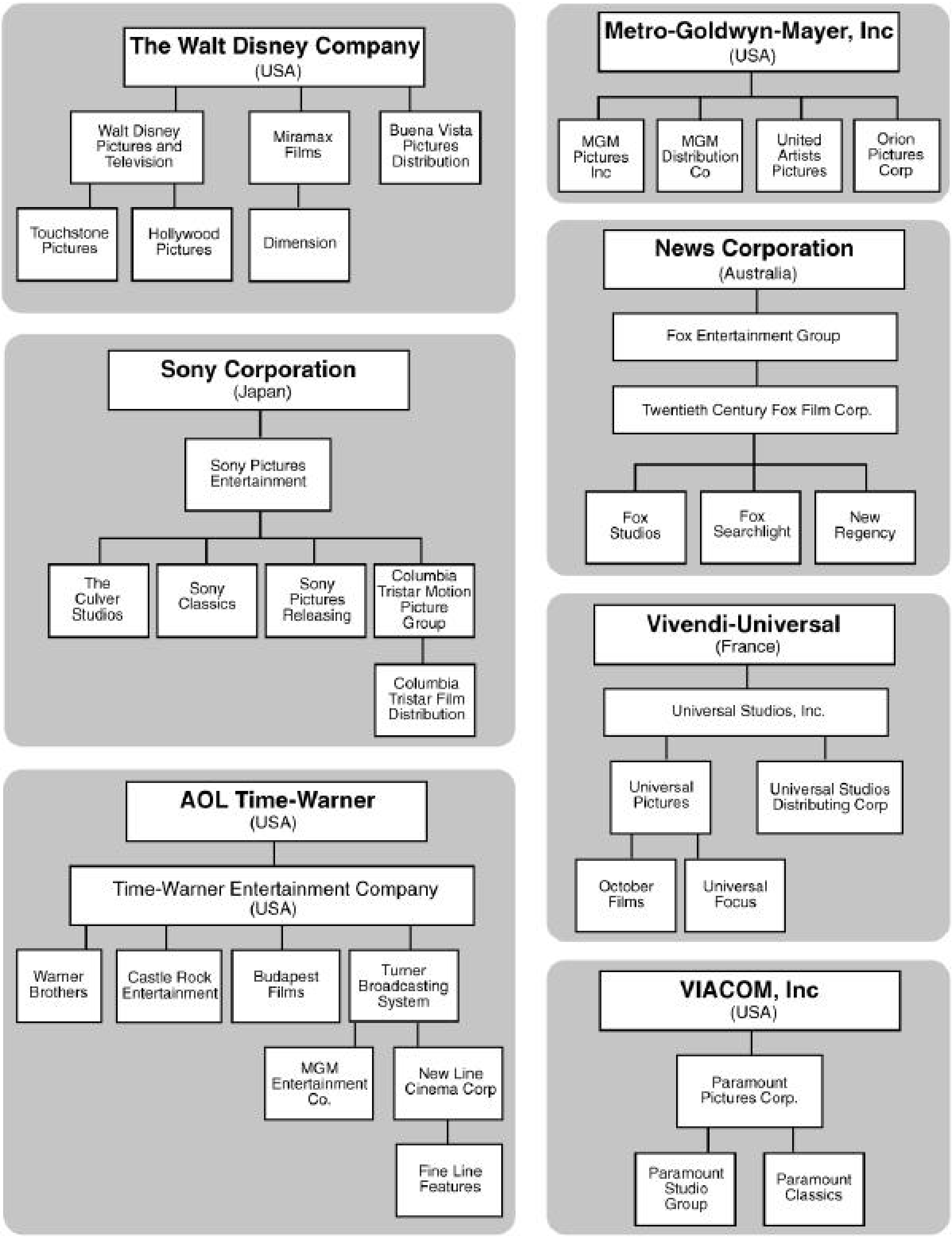

Figure 2. The Hollywood majors: corporate ownership relations. Sources: various directories, reports, and web sites.

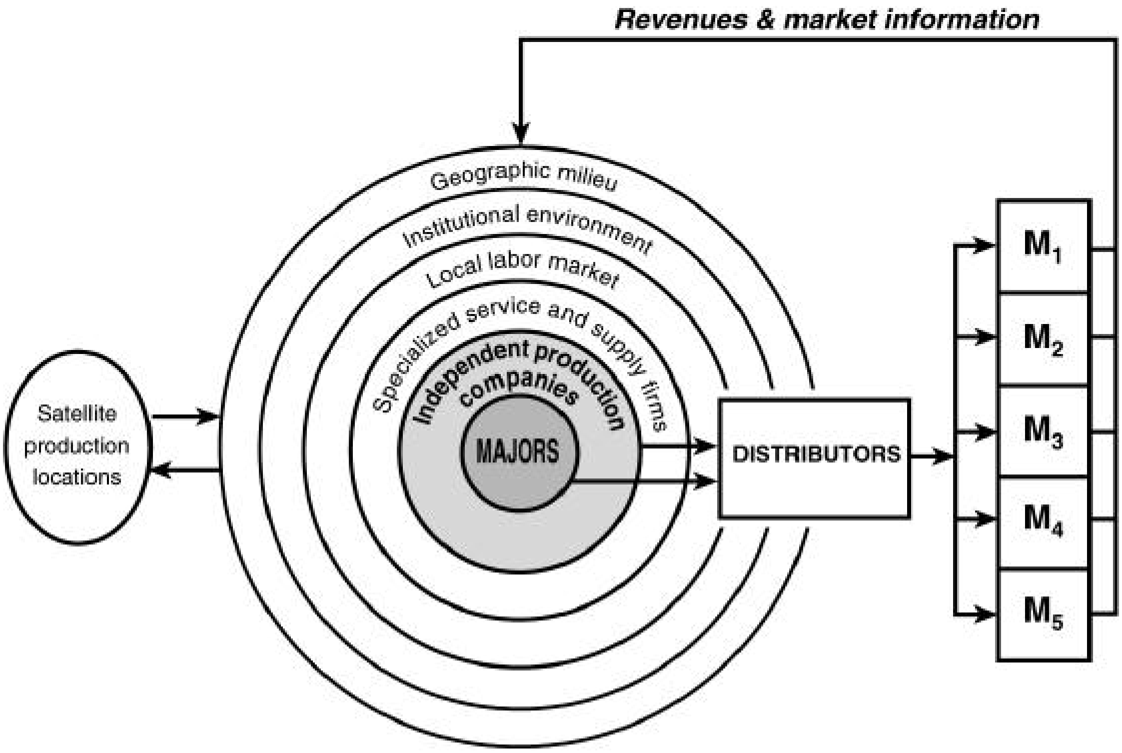

Figure 3. Schema of the Hollywood motion-picture production complex and its external spatial relations. $\underline{M}_1$, $\underline{M}_2$, …, $\underline{M}_5$ represent markets differentiated by niche and by geography.

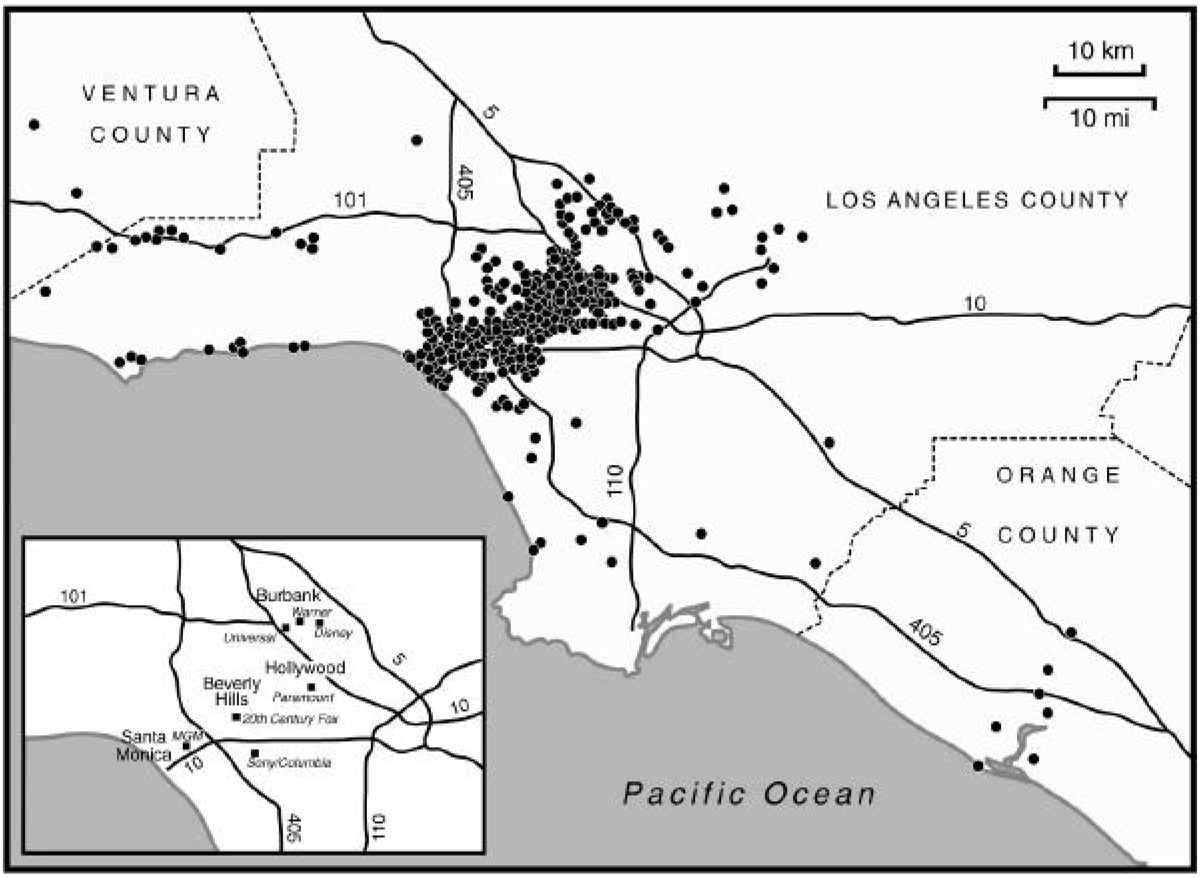

Figure 4. Motion-picture production companies in Southern California. The inset shows locatio ns of the majors and selected place-names. Sources of address data: <u>Blu-Book, 2001</u> (Los Angeles: Hollywood Reporter), and <u>Producers</u> (Los Angeles: Ifilm).

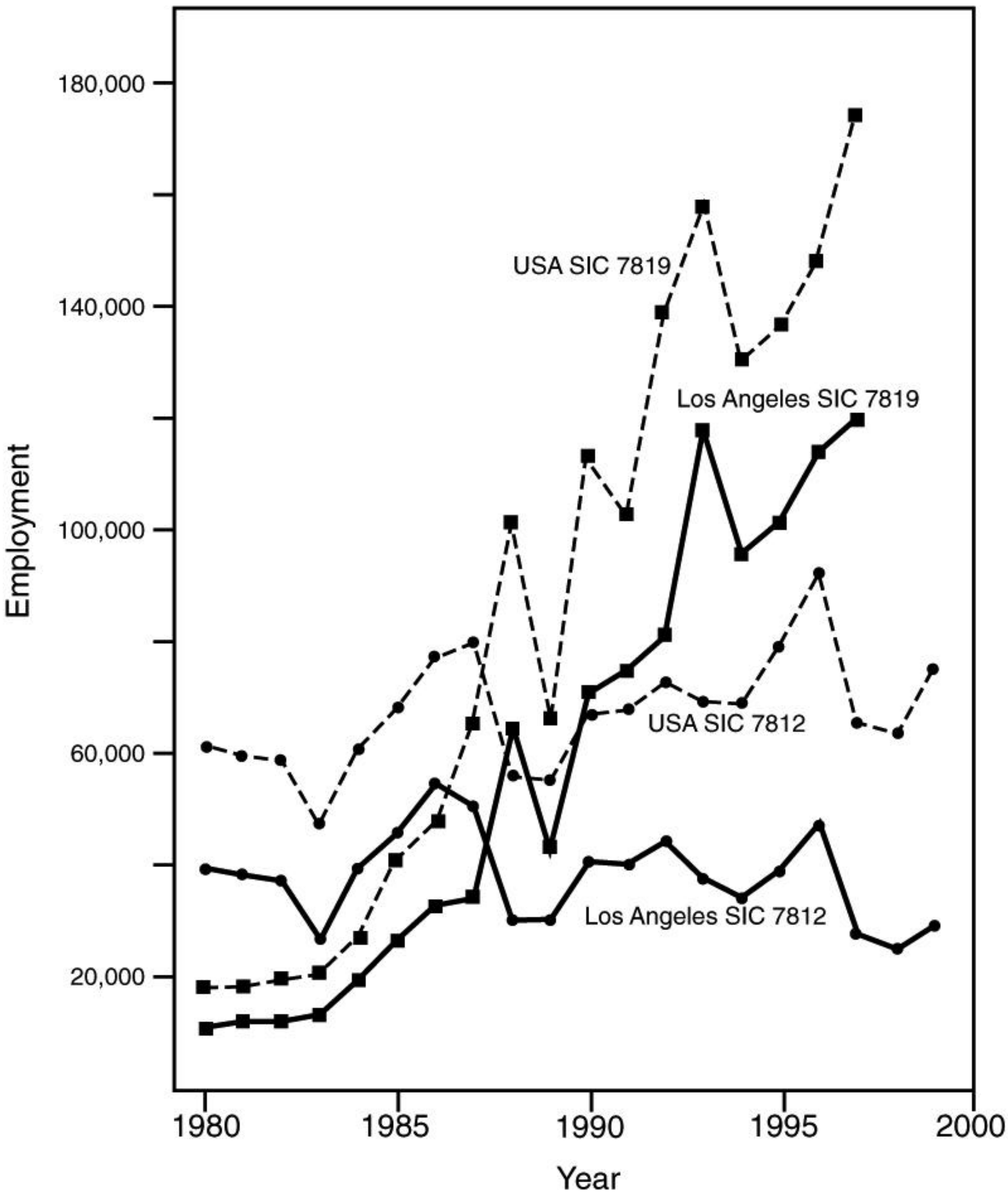

Figure 5. Employment in the motion-picture industry, Los Angeles County and the USA. SIC 7812 = Motion-Picture and Video Production; SIC 7819 = Services Allied to Motion Pictures. Source of data: US Department of Commerce, Bureau of the Census, County Business Patterns.

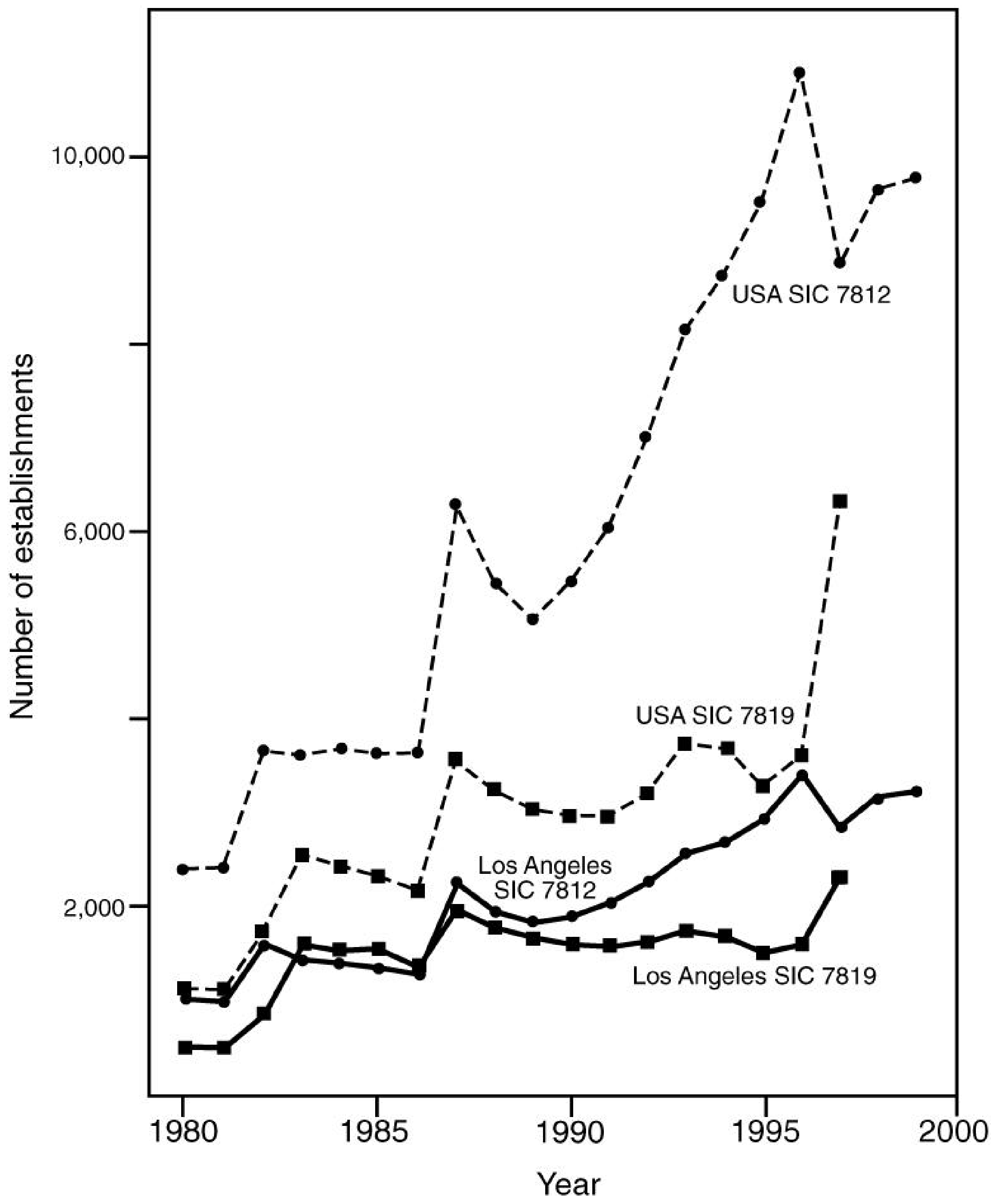

Figure 6. Number of establishments in the motion-picture industry, Los Angeles County and the USA. SIC 7812 = Motion-Picture and Video Production; SIC 7819 = Services Allied to Motion Pictures. Source of data: US Department of Commerce, Bureau of the Census, County Business Patterns.

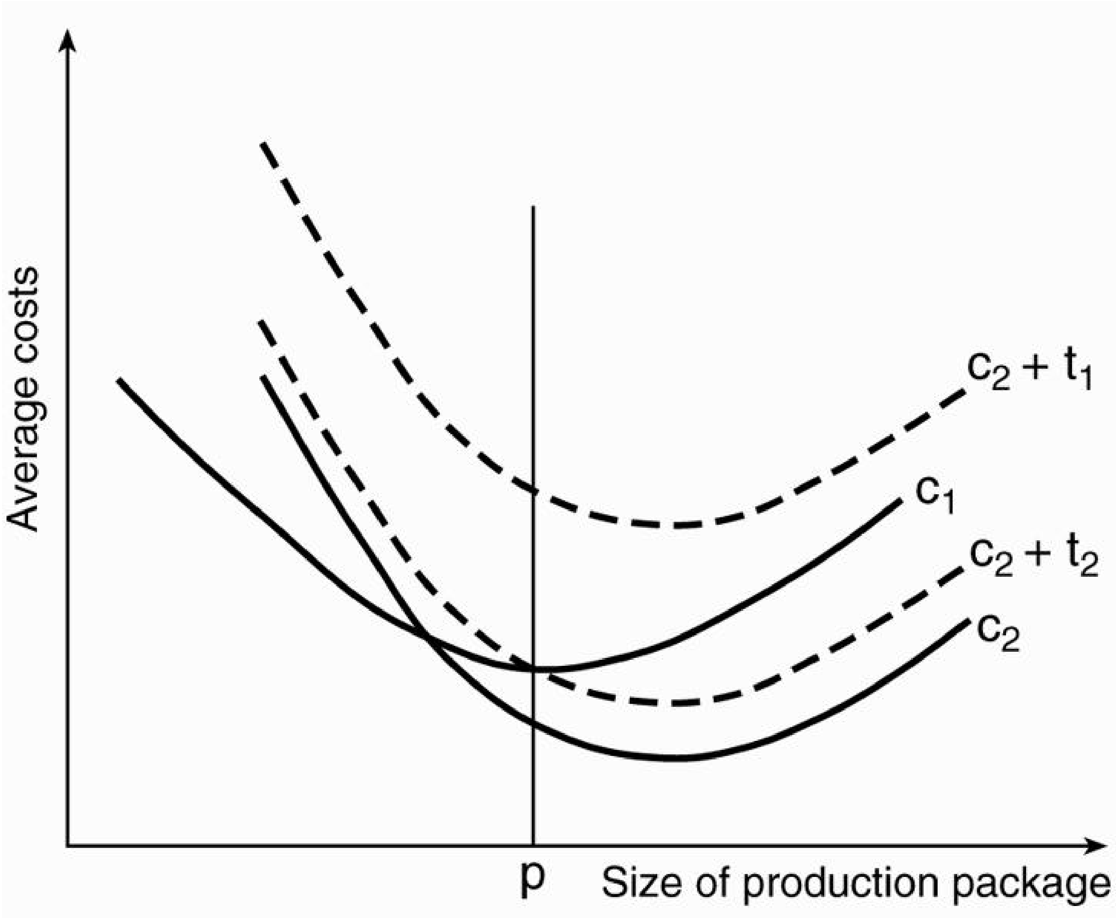

Figure 7. Analysis of runaway production; $\underline{c}_1$ is the average cost curve for a given package of production tasks in Hollywood; $\underline{c}_2$ is the average cost curve for the same tasks at a satellite location; $\underline{t}_1$ and $\underline{t}_2$ are unit costs of transacting between the two locations.

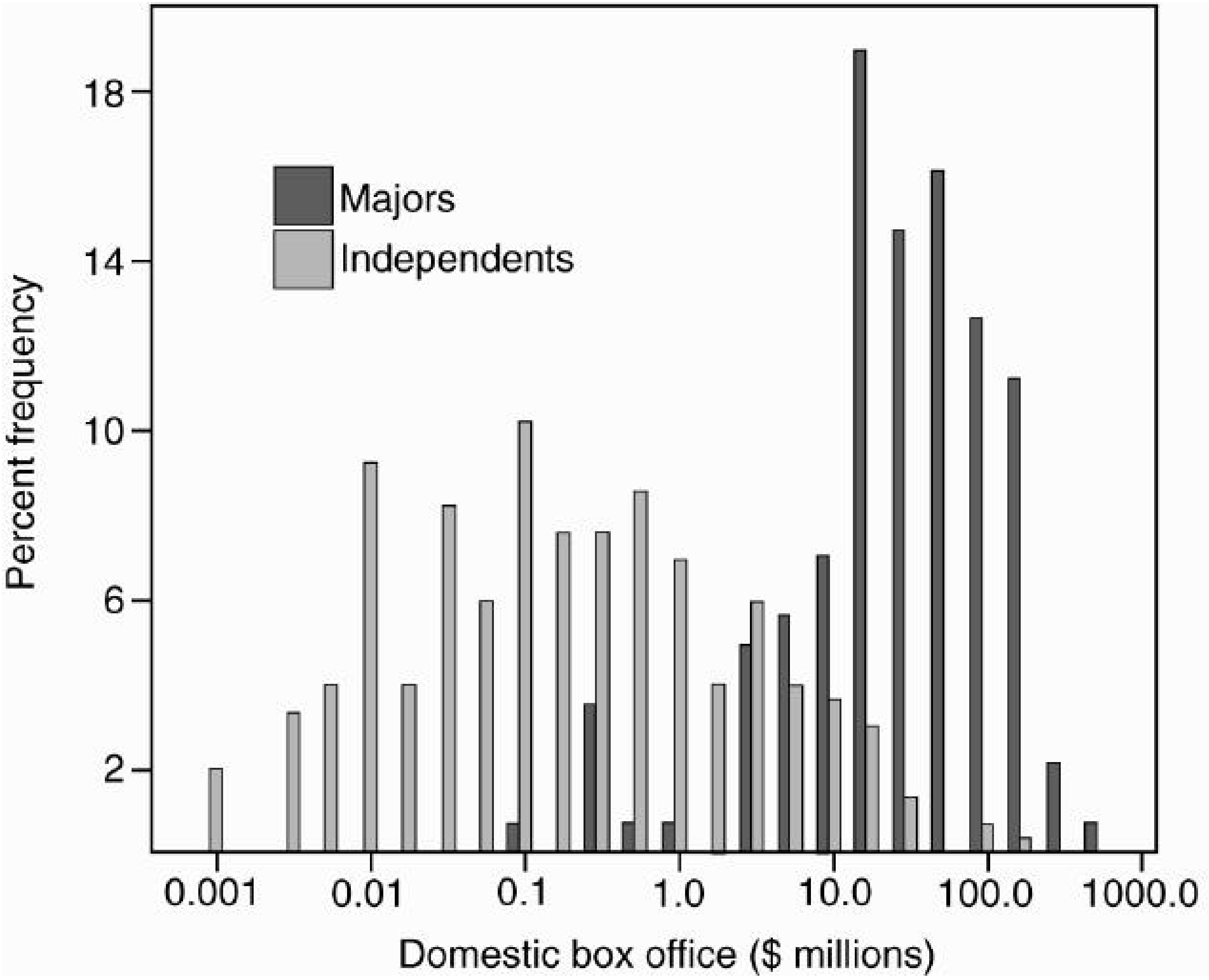

Figure 8. Frequency distributions of domestic box-office returns for films released by majors and independents, 1999. Note that the x-axis is defined on a logarithmic scale. Source of data: National Association of Theatre Owners, Encyclopedia of Exhibition, 2000-2001.

Endnotes

[1] This research was supported by the National Science Foundation under award number BCS-0091921, with supplementary funding from the Haynes Foundation. I am grateful to Kathleen Lee and Michael Storper for their comments on an early draft of this paper.

[2] Nowadays the industry spills over into other parts of the region lying well beyond its original confines in Hollywood proper; the term thus now has a synecdochic rather than literal meaning as a geographic designation.

[3] Paramount did not, however, sever the link between production and distribution (Robins, 1993). Had it done so, the entire subsequent history of Hollywood would almost certainly have turned out quite differently. Among other possible outcomes, the degree of concentration in the distribution segment of the industry might well have been reduced, thus opening up a wider market space for independent films of all kinds, and possibly inhibiting the majors' shift into blockbuster productions.

[4] The term is taken from the jargon of the aerospace industry; see Scott (1993).

[5] Mezias and Mezias (2000) suggest that in 1929, vertically-integrated firms controlled about 80% of the market.

[6] MGM, by contrast, owns no studio facilities whatever, preferring to rent these as and when they may be needed.

[7] Some of the more important of these institutions being the International Alliance of Theatrical Stage Employees, the Director's Guild, the Producers' Guild, the Screen Actors' Guild, the Writers' Guild, the Academy of Motion Picture Arts and Sciences (which organizes the annual Academy Awards), the Alliance of Motion Picture and Television Producers, the American Federation of Television and Radio Artists, the American Film Marketing Association, the Motion Picture Association of America, the Entertainment Industry Development Corporation.

[8] "Runaways" re-surface in Canada as "export value."

[9] These examples draw attention to the misnomer involved in the term "high concept" and clearly distinguish the type from the film d'auteur.

[10] Data from US Department of Commerce, Bureau of the Census, Economic Census, 1997.

[11] A strategy that has now more or less displaced earlier distribution methods based on exclusive booking of films in a few selected theaters, and reliance on word-of-mouth as a means of garnering audiences for subsequent rounds of release.