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Why Scorsese is Right About Corporate Power

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Why Scorsese is Right About Corporate Power

Abstract

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Keywords

political economy, film, critical film studies

Cover Page Footnote

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Why Scorsese is Right About Corporate Power, Part 1
Originally published at notes on cinema

What is more pleasurable: reading Martin Scorsese on cinema or reading reactions to Scorsese on cinema? The reactions compete for our pleasure because they reveal how easy it is for someone's words to make us jump into a debate with two feet and eyes closed.

In the March 2021 issue of Harper's, Scorsese wrote an essay to pay tribute to Federico Fellini, the Italian director who directed such great films as *La Strada*, *8 1/2*, *La Dolce Vita*, *Nights of Cabiria* and *Satyricon*. Scorsese writing on Fellini is definitely newsworthy for cinephiles who want to know about Fellini's beginnings in Italian neo-realism (for example, he worked with Rosselini on *Rome, Open City*), or who simply want to be reminded of why his filmography is so great. However, the news of this essay's arrival went well beyond film studies and had very little to do with Fellini. News outlets reported the publishing of the essay and #scorsese trended on Twitter because Scorsese framed his tribute to Fellini–which was both personal and knowledgeable–with an argument about the decline of cinema as an art form. Here is a key example from the essay's conclusion:

> Everything has changed—the cinema and the importance it holds in our culture. Of course, it's hardly surprising that artists such as Godard, Bergman, Kubrick, and Fellini, who once reigned over our great art form like gods, would eventually recede into the shadows with the passing of time. But at this point, we can't take anything for granted. We can't depend on the movie business, such as it is, to take care of cinema. In the movie business, which is now the mass visual entertainment business, the emphasis is always on the word "business," and value is always determined by the amount of money to be made from any given property–in that sense, everything from *Sunrise* to *La Strada* to *2001* is now pretty much wrung dry and ready for the "Art Film" swim lane on a streaming platform.

Jump-cut to a crowd of people who vehemently agree with Scorsese. They recite the names of directors from the past, in the hopes that people will understand the magnitude of what will be lost if cinema goes extinct. A reverse shot of another angry crowd, who believe Scorsese is over-reacting to cinema's future. Some in this crowd might dislike his characterization of streaming platforms like Amazon Prime, and the recommendation-through-algorithm method. Others might be skeptical of the argument that art is being crushed inside the corporate packages that deliver media content.

I strongly support Scorsese's essay. But I also think that my form of support is slightly different than others. Through a curious survey of #scorsese after the *Harper's* essay, I noticed that much of the digital debate is used to re-state definitions of cinema and art. (Scorsese, for his part, produced his own version of "What is Cinema?" before the Harper's essay, when he said Marvel superhero films were movies but not cinema.) My support for Scorsese is based on a deep appreciation for the artistic potential of films, but it is also based on the significance of this claim: "We can't depend on the movie business, such as it is, to take care of cinema."

A reader might have skimmed over this sentence, or perhaps it was grouped with all the other pieces of Scorsese's argument for the preservation of cinema. But if we pause on the sentence

“We can’t depend on the movie business, such as it is, to take care of cinema”, we can see there is something perplexing about it. Would we say this about other industries, such that we have sentences like:

- We can’t depend on the steel business, such as it is, to take care of steel production.
- We can’t depend on the aviation business, such as it is, to provide safe air travel.
- We can’t depend on the pharmaceutical business, such as it is, to provide useful medicine.

Researchers and journalists on steel, air travel and pharmaceutical medicine might reply with reasons why you can definitely say these things about their respective business sectors. My point, rather, is a simpler one. Scorsese is revealing a truth that is not taught to those of us who grew up under capitalism: that a business has an *antagonistic* relationship with what it is purportedly in business to produce. An implication of this truth is that, with respect to the art of cinema, the film business does not want another Fellini, Antonioni, Varda, Godard, Ackerman, Scorsese, ….

In a multi-part post, I want to show how Scorsese is right about the differences of circumstance, which exist between himself and a director like Fellini. I also want to use Scorsese’s argument as a platform to widen our perspective on the political economy of Hollywood. The story Scorsese is telling about the business of Hollywood is a story about business interests wanting to reduce risk. The ambiguity of risk in this story–is it financial risk or is it aesthetic risk?–is a helpful shortcut to understanding what reducing risk means for those who have control over the industrial art of filmmaking. When the Hollywood film business is estimating its future earnings, risk perceptions account for the possibility that the future of culture will be different–and perhaps radically different–from what capitalists expect it to be. This logic of capitalist accounting, while quantitative in expression (prices, income, volatility, etc.), is social in essence. For this reason, the capitalization of cinema cannot overlook any social dimension of cinema, be it aesthetic, political or cultural. The eye of capitalization searches for any social condition that could have an impact on “the level and pattern of capitalist earnings” (Nitzan & Bichler, 2009, p. 166).

Part 1 will introduce Scorsese’s concern and situate it within the method I will use to analyze the financial performance of the major Hollywood studios.

Nostalgia for a business that likes risky cinema

As mentioned above, Scorsese’s shows little restraint to let his celebration of Fellini celebrate the art of cinema more broadly. For instance, Scorsese sees Fellini as one the leaders in a cadre of filmmakers that were willing to explore every potential within cinematic art. Like Bresson, Godard and others, Fellini was open to letting a film tell a story in the best way it could.

Scorsese also makes a point to give his admiration to the old film business, or at least some part of it, which was willing to support this cinema renaissance:

The choices made by distributors such as Amos Vogel at Grove Press back in the Sixties were not just acts of generosity but, quite often, of bravery. Dan Talbot, who was an exhibitor and a programmer, started New Yorker Films in order to distribute a film he loved, Bertolucci's *Before the Revolution*–not exactly a safe bet. The pictures that came to these shores thanks to the efforts of these and other distributors and curators and exhibitors made for an extraordinary moment. The circumstances of that moment are gone forever, from the primacy of the theatrical experience to the shared excitement over the possibilities of cinema. That's why I go back to those years so often.

Fellini and his contemporaries could not have long careers without financial support. But if that is the case, what changed? Have these "brave" beneficiaries disappeared? Who replaced them?

Hollywood needs to differentially accumulate

In the trenches of independent filmmaking, nothing has changed: producers scramble for money and people with money take a risk and invest in a film project that might not be purchased by a distributor. These producers might also sell future distribution rights for advanced funding–so if the film is a hit down the road, the lender is the one getting rich.

However, in the broader world of the film business, a lot has changed. Financing a film for profit is the core of business enterprise, but the significance of that profit changes when you are, for example, competing to reach the same levels as Fortune 500 companies.

To illustrate the change let us look at an extreme comparison of investment in cinema. George Harrison of The Beatles was one of the key financiers of *Monty Python's Life of Brian*. The comedy troupe was in need of around $4 million to begin shooting and Harrison stepped in to help. This amount of money is not insignificant, and we do not need to assume that Harrison, famous as he was, could afford to lose his investment. However, listen to members of Monty Python recount the financing of *Life of Brian* and it is hard to imagine that Harrison was as serious as a capitalist–e.g., benchmarking his investment against alternatives or trying to find the Beta coefficient of Monty Python–even though he took a clear risk in his personal wealth.

At the other end of this comparison is an example of Hollywood's historical performance: in 1996 the average operating income per firm of the major film distributors was $504 million. For the same year, its average revenues per firm were $4.5 billion. Are these magnitudes large or small? Now consider other relevant questions. How would investors, who could always put money in sectors other than film and media, regard these numbers? How does Hollywood know if it is doing well or not? When is the financial performance of cinema cause for celebration, and when is it a reason for distress? There are no universal answers to these questions, but Harrison was not even seeking such answers. He might enjoy a return on his investment, but he is investing in a project that corporations rejected. He was also not telling Monty Python that he could invest in *Life of Brian*, or oil, or plastics, or insurance stocks, or US bonds, etc.

The *modus operandi* of actual capitalists is to find and use contextually-relevant benchmarks for the performance of their investments:

A capitalist investing in Canadian 10-year bonds typically tries to beat the Scotia McLeod 10-year benchmark; an owner of emerging-market equities tries to beat the IFC benchmark; investors in global commodities try to beat the Reuters/Jefferies CRB Commodity Index; owners of large US corporations try to beat the S&P 500; and so on. Every investment is stacked against its own group benchmark—and in the abstract, against the global benchmark. (Nitzan & Bichler, 2009, p. 309)

Relevancy, in this case, is defined by such factors as listed stock exchange and the size of the investment. As an oligopoly of cinema, major Hollywood film distribution finds like-minded competition in the giant firms around the world and in their respective sectors. Their levels of accumulation are worthy benchmarks of the powerful capitalist.

When the risk of investing in cinema is compared to investment in the rest of capitalist universe–oil, weapons, grain, cars, etc.–it is entirely possible that corporate love for risky cinema can disappear. In fact, if we place Scorsese's argument within a general history of cinema, we can see there is an overlap of two events:

- Hollywood's heavy reliance on blockbuster cinema;
- the change in how Hollywood film distributors accumulate capital, relative to dominant firms across other sectors.

We can simplify our presentation for the sake of showing this overlap of aesthetic trends and business strategies clearly. Figure 1 places selected films from Fellini and Scorsese on a broad timeline of Hollywood history. The three major eras in this timeline are the studio system, "New" Hollywood and blockbuster cinema. The studio system is not directly relevant to our topic, but it is perhaps still the most controversial era of Hollywood history. The key distribution-exhibition strategies of the studio system, such as "block booking", were dismantled by the 1948 US Supreme Court case *United States v Paramount Pictures*. "New" Hollywood does not have definitive start and end points–we are setting it at 1968 and 1980, respectively. This era is famously Hollywood's counter-cultural phase, when it hired younger directors to speak to such issues as the Vietnam War, the Hippie movement, civil rights, Women's Liberation, Richard Nixon and state surveillance. The young Scorsese graduated from NYU and started building his directing career in this era. The blockbuster era, like "New" Hollywood, has no official start date. 1980 is a simple marker because it signifies the beginnings of Hollywood privileging blockbusters over everything else. *Jaws* (1975) and *Star Wars* (1977) were released before 1980, but, with hindsight, we can see the sector-wide push that followed; Hollywood initiated a new era because it was hungry to find that next *Jaws* and that next *Star Wars*, and on and on.

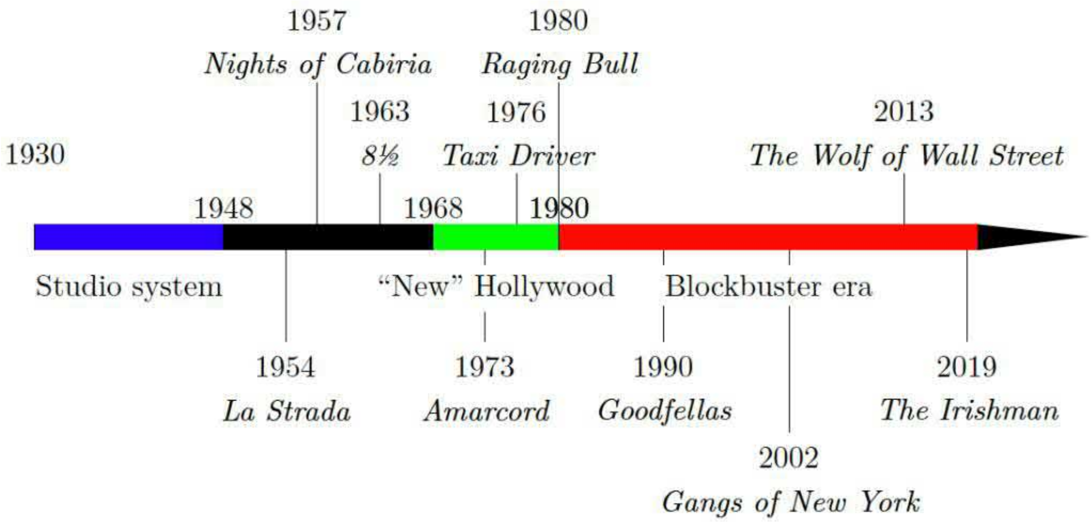

Figure 1: *Timeline of Fellini's and Scorsese's films, selection*

Figure 2 has our cinema timeline overlap a measure of Hollywood's *differential capitalization*. According to Shimshon Bichler and Jonathan Nitzan, differential capitalization is a symbolic representation a capitalist trying to accumulate more than a relevant benchmark of capital (Nitzan & Bichler, 2009).[1] For example, differential accumulation occurs when the capitalization of *A* rises faster than its benchmark or falls slower than a falling benchmark. In this figure we measure the differential accumulation of Hollywood with the capitalization per firm of major Hollywood distributors (Columbia, Paramount, RKO, Twentieth Century-Fox, Universal, and Warner Bros.)[2], divided by the per firm average market capitalization of all US-listed firms.

Perceived as a story of differential accumulation, the differential rises of Hollywood occurred during its notable "eras". The rise and fall of the studio system is visible in Figure 2. "New" Hollywood was also a strong period of differential accumulation.[3] The brief embrace of Leftist counter-culture enabled Hollywood to effectively reverse the depression between 1948 and the early 1960s. From there, the blockbuster cinema launched Hollywood to new heights. Without any long-term de-acceleration, blockbuster-Hollywood increased its differential capitalization 390% from 1980 to 1993.

[1] The accumulation of what? Power. I will unpack this claim in future posts. Currently I am, for the sake of brevity, glossing over a key piece of Bichler and Nitzan's theory of capital accumulation. Lots of writing on the capital-as-power approach appears on http://bnarchives.yorku.ca/ and https://capitalaspower.com.

[2] If you are interested in a detailed breakdown of my data, see (McMahon, 2019). Each firm does not appear every year. Disney is not included in the average market capitalization because its valuation includes more business operations than film production and distribution.

[3] While not spoken of in terms of capitalization and differential accumulation, many histories of Hollywood present "New" Hollywood as a period when studios reversed their bad fortunes and became profitable again. See, for example, Cook (2000); Kirshner (2012); Langford (2010).

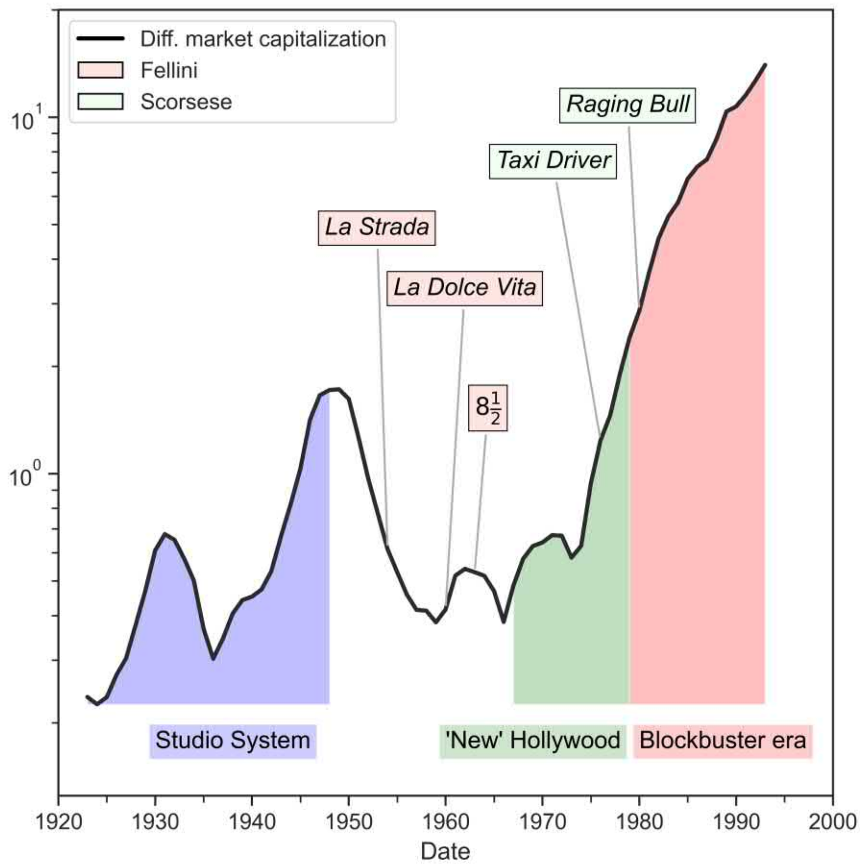

Figure 2: *Differential capitalization of Hollywood, through the eras*
Note: Series is smoothed as a 5-year moving average. Source: Global Financial Data for market capitalization of Warner Brothers, Paramount Pictures, RKO, Universal Pictures, Twentieth-Century-Fox, and Columbia Pictures Industries Inc. to 1956. Compustat through WRDS for market capitalization 1956-1993. Global Financial Data for US total market capitalization and number of firms. US market capitalization per firm is calculated by dividing the total value by the number of firms.

Next post: The change to Hollywood's accumulation

1993 is a funny year for the time series of Figure 2 to end. The reason is related to conglomeration and the usage of firm-level data. My data sources switch to annual reports in the early 1990s because various financial databases (Compustat, Global Financial Data) do not have business segment data, which is needed when we need to isolate film production and distribution from a conglomerate's other business operations. Therefore, the market capitalization of a conglomerate is just as misleading when, for example, a firm also invests in theme parks (Disney), wind turbines (GE), or radio stations (News Corp).

Notwithstanding its termination in 1993, the dataset is long enough to show that Hollywood kept beating a US benchmark when it switched to a blockbuster-centric strategy. The next post will analyse how this success is related to Scorsese's issue with contemporary Hollywood. To preview the relation, see Figure 3. In this figure, the benchmark is the 500 largest firms in the

Compustat database, measured each year and sorted by market capitalization. The 500 firms are a proxy for the S&P 500, which is a standard benchmark for the biggest firms in the world. When you can *repeatedly* beat the S&P 500, you reside in the dominant class.

Like Figure 2, the differential market capitalization of Hollywood rose in the era of "New" Hollywood and continued to rise into the blockbuster era. However, differential operating income fell in the early years of the blockbuster era and then continued to fall over the long term. And unlike the parallelism that occurred during "New" Hollywood, major Hollywood firms in the blockbuster era were not able to beat our 500-firm benchmark in *both* market capitalization and profits. How does differential market capitalization rise when differential profits trend downward? The answer, we will see, is risk reduction.

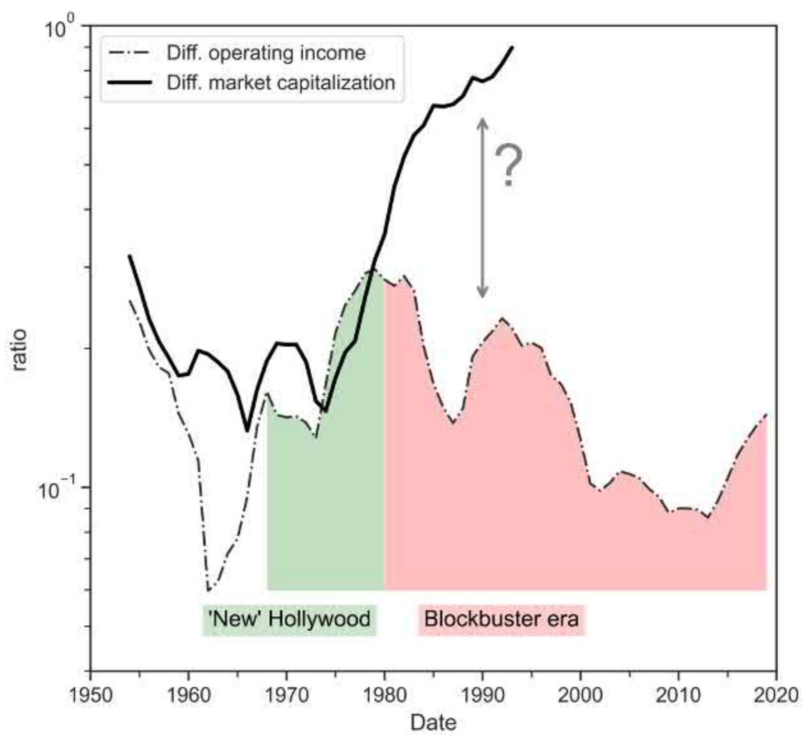

Figure 3: *Differential capitalization and differential operating income of major Hollywood distributors*
Note: Both series are smoothed as 5-year moving averages. Source: Compustat through WRDS for market capitalization and operating income, 1950-1993. Compustat for operating income of Hollywood firms, 1950-1993. Annual reports of Disney, News Corp, Viacom, Sony, Time Warner (Management's Discussion of Business Operations for information on their filmed entertainment interests) for operating income, 1994-2019.

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Why Scorsese is Right About Corporate Power, Part 2
Originally published at notes on cinema

Part 1 introduced Scorsese's argument in his *Harper's* essay, which was about much more than Fellini. The first part also explained how we can connect Scorsese's essay to the drive in the Hollywood film business for major film distributors to differentially accumulate, i.e., beat a benchmark that is relevant to dominant capitalists. By the end, we were left with an open question: how did major Hollywood studios differentially accumulate in the blockbuster era when their differential profits were actually stagnating? This question comes from the evidence in Figure 1, which was first presented in Part 1.

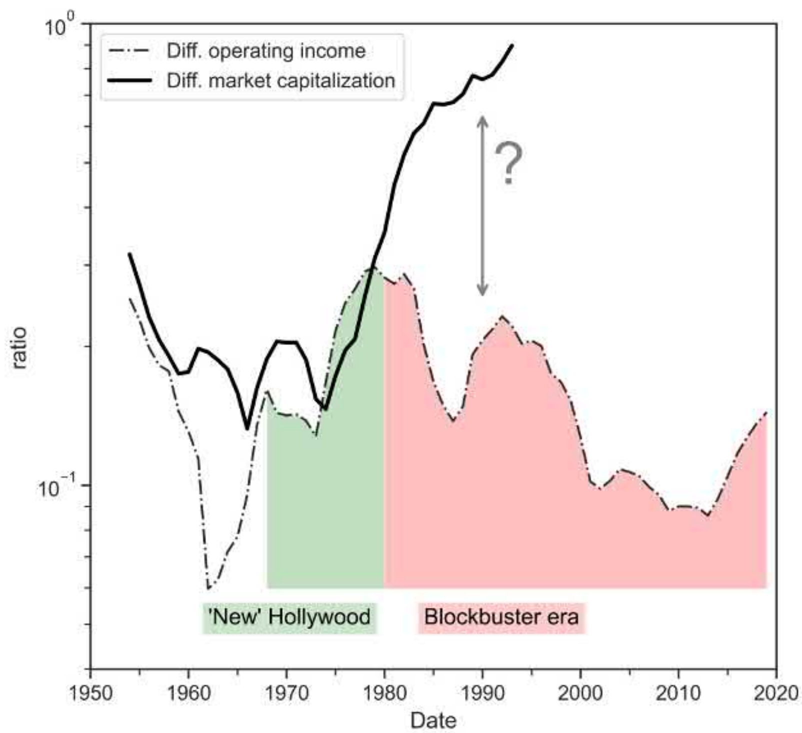

Figure 1: *Differential capitalization and differential operating income of major Hollywood distributors*
Note: Both series are smoothed as 5-year moving averages. Source: Compustat through WRDS for market capitalization and operating income, 1950-1993. Compustat for operating income of Hollywood firms, 1950-1993. Annual reports of Disney, News Corp, Viacom, Sony, Time Warner (Management's Discussion of Business Operations for information on their filmed entertainment interests) for operating income, 1994-2019.

This post will focus on the change in attitude that established the blockbuster era. To firmly establish blockbuster cinema, Hollywood changed its attitude about the creativity of its filmmakers. Certainly, any version of Hollywood will need creative people to write, shoot, design, manage and act in films. However, around the early 1980s, the party was over for those whose creativity got in the way of Hollywood's new path to differential accumulation: reducing risk.

Can we talk about what we just watched?

Kirshner's history of the "New" Hollywood era (2012) begins anecdotally, with his personal memory of how often he and his friends would spend hours in cafes talking about the films they just watched. This anecdote, in my opinion, points to the heart of "New" Hollywood cinema. Films like *The Friends of Eddie Coyle*, *Klute*, *Night Moves* and *California Split* are hard to praise for how they look and sound. You can see the grain and muted colours of a typical "New" Hollywood film from a mile away. If you are watching the film at home, you might still not clearly hear the dialogue after raising your TV volume to 100. Nevertheless, a good "New" Hollywood film–and there are many–will certainly make you think, because no other era of Hollywood cinema is so explicit in its intention to make the moral ambiguity of a story as deep as an ocean. For example, in *McCabe and Mrs. Miller*, one of Robert Altman's best films, McCabe (played by Warren Beatty) is hardly a hero, but Altman never lets your opinions only travel in one direction. McCabe is weak, but strong enough to fight. He is directionless but also a likeable martyr that hates the correct enemy: a mining monopoly that hires killers to terrorize a defenceless town.

In terms of theatrical attendance in the United States, the "New" Hollywood era was successful. We can see this with two measures of success. Figure 2 shows how the period between 1968 and 1980 had high theatrical attendance of the top five films per year. (Ticket price inflation is why theatrical attendance in the blockbuster era is lower than what one would have expected it to be.) Figure 3 shows a five-year percent change for the per capita theatrical attendance in the United States. A percent change of the series makes the relevant historical shift easier to see; *all* per-capita theatrical attendance after the 1940s is low by comparison, as theatrical attendance plummeted with the decline of the studio era and the rise of television. Figure 3 demonstrates that, while the level of theatrical attendance per capita was still much lower than what came before it, "New" Hollywood was able to produce positive five-year growth rates after two decades of shrinkage.

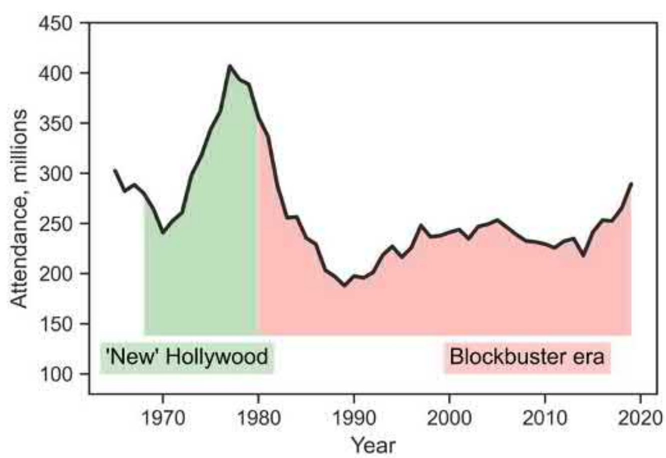

Figure 2: *Theatrical attendance, top five films in the United States theatrical market*, five-year rolling average
Note: Attendance equals total US gross revenues of the top five films, divided by average US ticket price. Sources: Bradley Schauer and David Bordwell, 'Appendix: A Hollywood Timeline, 1960–2004,' in Bordwell (2006). For years not covered in Schauer and Bordwell, see www.boxofficemojo.com for yearly gross revenues of individual films and National Association of Theatre Owners for average US ticket price.

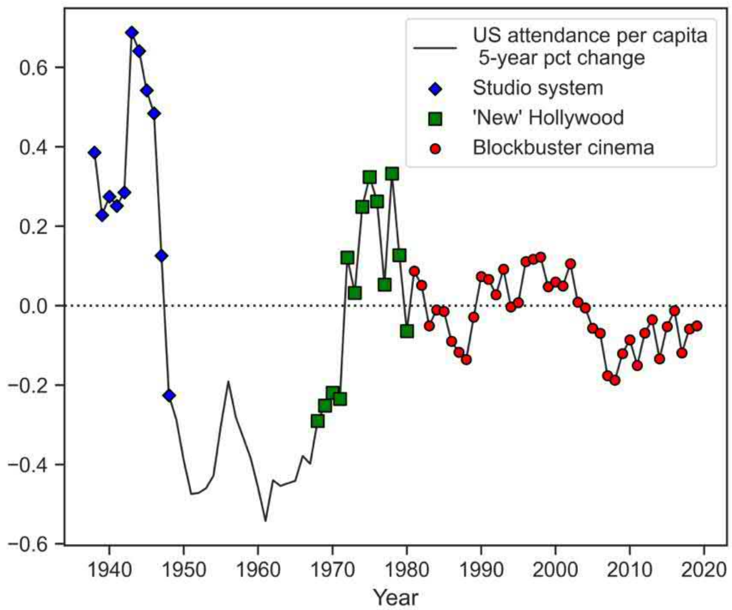

Figure 3: *Attendance per capita, United States, 5-year percent change*
Source: Finler (2003) for box-office receipts and ticket prices from 1933 to 1959; Bordwell (2006), 'Appendix: A Hollywood Timeline, 1960–2004,' for total attendance 1960–2004; www.natoonline.org/data/admissions/ for attendance 2005–19. IHS Global Insight for total United States population.

Not much to left to see if you ain't here for blockbusters

In the two figures above, "New" Hollywood earns its name, as the era is defined by the ways studios successfully bounced back by embracing young, often inexperienced, filmmakers, whose film projects were infused with the social issues of America in the 1960s and 70s. There were cracks in the business-artist relationship from the very beginnings of "New" Hollywood–e.g., the studio treatment of Elaine May–but some of cracks that appeared in the mid-1970s were so big that this more free-spirited version of Hollywood was under threat to end almost as soon as it began.

The growth of the financial problem with "New" Hollywood was caused by Hollywood itself. Hollywood studios in the 1970s liked the newest post-studio-system distribution strategy, saturation booking, which is the act of releasing a big film like *The Godfather, Part I* in as many theatres as possible. Yet saturation booking needs a lot of people to come to the theatres, and the early problems with saturation booking would only be solved when Hollywood was more effective at using the saturation-booking strategy. The ability for saturation booking to be the solution to its own problems existed because Hollywood in the 1970s was a curious mix of proto-blockbusters, *auteur* blockbusters, and hard-to-market films produced by directors like John Cassavetes, Hal Ashby and Robert Altman. Look beyond the two most obvious financial successes of the 1970s–*Jaws* and *Star Wars*–and there are examples of this decade having qualities that undermined the interests of a Hollywood system that was now hungry for pure, uncut blockbusters. First, if blockbusters were to be high-octane fuel for the big engine of saturation booking, Hollywood studios would need to learn how to design enough “must-see” films for the top financial tier. As shown in Figure 4, this lesson was first taught in 1976, the year that was sandwiched between *Jaws* and *Star Wars*. *Jaws* created a new pecuniary standard for high-grossing films, and in this environment, the great financial success of *Rocky*–the highest-grossing film in 1976–was, as Cook describes, “puzzling and unnerving” (Cook, 2000, p. 52). *Rocky* was a low-budget project that featured, at the time, a cast of unknown actors. Its unexpected success twisted the knife in the side of designed-to-be-blockbuster films like *King Kong* (1976) and *The Deep* (1977), two films that could not repeat the financial success of *Jaws*.

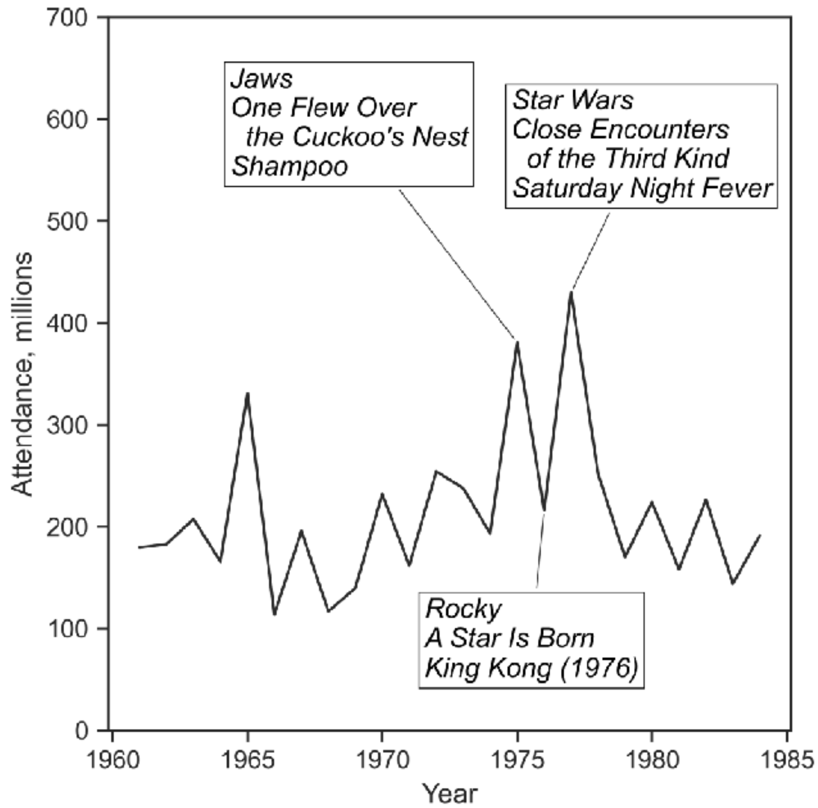

Figure 4: *Theatrical attendance, top three films in the United States theatrical market*
Note: Attendance equals total US gross revenues of the top three films, divided by average US ticket price. Sources: Bradley Schauer and David Bordwell, ‘Appendix: A Hollywood Timeline, 1960–2004,’ in Bordwell (2006). For years not covered in Schauer and Bordwell, see www.boxofficemojo.com for yearly gross revenues of individual films and National Association of Theatre Owners for average US ticket price.

This frustration with *Rocky* needs to be viewed through the lens of risk. In both its technical and conceptual senses, risk is relevant to the study of how Hollywood, as a business, utilizes social creativity. The conventional wisdom is that cinema is a very risky business enterprise, which means that even the biggest Hollywood firms are uncertain about their financial success. Yet, we will see going forward that Hollywood has devised strategies to reduce the possibility that the future of culture will be radically different from what capitalists expect it to be. This making of order does not eliminate risk entirely. Rather, by exercising corporate power again and again, industrial art of filmmaking and the social world of mass culture can be transformed into an *order of cinema*, in which film projects are weighable and calculable in terms of future expectations. Under such historical conditions, estimations of a film's social significance can, with a degree of confidence, be low risk or "sure bets".

For the blockbuster style to be low risk, Hollywood needed to selectively nurture the "right" type of creativity. Steven Spielberg and George Lucas were certainly proving their worth early on, but many of their contemporaries in the late 1970s were making *auteur*/blockbuster hybrids that proved to be incompatible with the saturation booking strategy. On the one hand, the production costs of films like Kubrick's *Barry Lyndon*, Peckinpah's *Convoy*, Friedkin's *Sorcerer*, Coppola's *Apocalypse Now*, Scorsese's *New York, New York*, and Cimino's *Heaven's Gate* were far too big for a small-release strategy to be profitable; on the other hand, the form and content of these films were also too esoteric to ever reach the revenues plateau of a *Jaws* or a *Star Wars*.

Figure 5 helps illustrate the transformation from the 1970s to the current era of Hollywood cinema, 1980-2019. The figure is a proxy for the consumer habits of American cinema. It presents the volatility of attendance for both the top three and top five films per year. Volatility is computed in two steps. For both the top three and the top five films per year, the annual growth rates of total attendance are computed from the 1940s to 2019. The two series in Figure 5 are measures of, for each year, a 20-year trailing standard deviation of these growth rates.

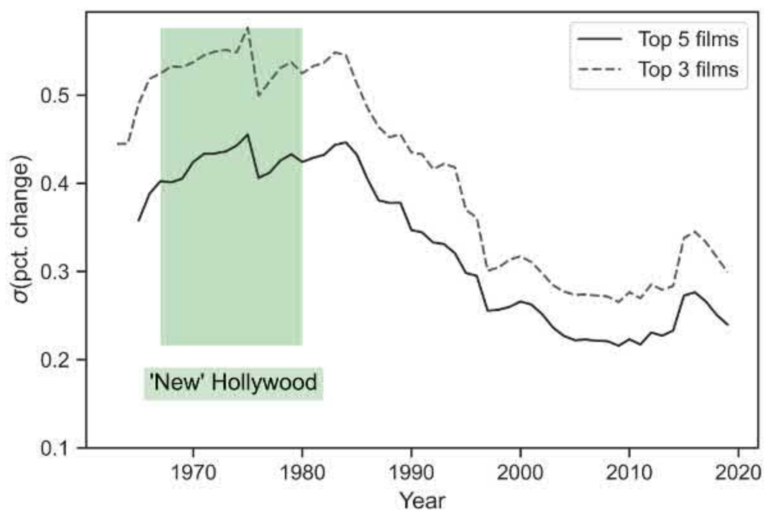

Figure 5: *Volatility of US theatrical attendance: top three and top five films*
Note: Attendance equals total US gross revenues of the top five films, divided by average US ticket price. Sources: Bradley Schauer and David Bordwell, 'Appendix: A Hollywood Timeline, 1960–2004,' in Bordwell (2006). For years not covered in Schauer and Bordwell, see www.boxofficemojo.com for yearly gross revenues of individual films and National Association of Theatre Owners for average US ticket price.

Interestingly, the volatility of attendance in the 1970s was similar to that of the 1960s and even the mid-1950s–two periods when saturation booking was not yet a method of distribution for mainstream films. Thus we can surmise that while the theatrical events of *Billy Jack* in 1971, *The Godfather* in 1972, *Jaws* in 1975 and *Star Wars* in 1977 were big in terms of *levels* of revenues, they had yet to translate into, for interested capitalists, high levels of confidence about the predictability of future earnings. To be sure, having single-handedly pulled in around 128 million attendances in the United States, *Jaws* was an example to be mimicked immediately. Justin Wyatt describes the saturation-booking strategy that followed on its heels:

> *Following Jaws, high quality studio films developed even broader saturation releases; in 1976, King Kong (with a 961 theater opening); in 1977, The Heretic: Exorcist II (703 theaters), The Deep (800 theaters), Saturday Night Fever (726 theaters); in 1978, Grease (902 theaters) and Star Trek–The Motion Picture (856 theaters) continued to expand the pattern of saturation release and intense television advertising.* (Wyatt, 1992, p. 112)

Despite this flurry of wide releases, however, Figure 5 illustrates that there is still a difference between the 1970s–a decade when blockbuster cinema was still in its infancy–and the contemporary period from 1980 to the present–a time when blockbuster cinema has become Hollywood's predominant style. The two series - "Top Three Films" and "Top Five Films" – both start their decline in the 1980s and reach their lowest levels in the 2000s. By 2011, the 20-year trailing standard deviation for the attendance of the top three films was 48 percent less volatile than it had been in 1980. The same can be said for the attendance of the top five films.

Next post: Seeking low-risk cinema

This reduction in the volatility is neither accidental or a lucky externality of general market behavior. The next post will show examples of where, I believe, we can see Hollywood using capitalist power to reduce risk. In the day-to-day experiences of filmmaking, this mode of power can appear in flashes, such as when executives "give notes" to creatives or when studios suggest casting stars to boost a film project's "bank-ability". However, even when the sabotage of filmmaking is micro enough to be imperceptible (much like the slow boiling of a frog in a pot?), the key is that the oligopoly at the centre of Hollywood has the power to act when creativity is perceived to be "too risky". Some film projects, on account of their subject matter or style, can be effectively withheld from the market because no major firm will purchase the rights to distribute them. A film project may be able to find financing, but under a contract that stipulates conditions about form, content, budget, cast, crew, etc. A film can be produced, but management will have a role in the direction and pace of creation. And if business interests are still sceptical about their investment in potentially chaotic artistic creativity, the right of film ownership often includes the right of "final cut"–i.e., the right to modify a film before it is released but after the director presents his or her final version (Bach, 1985).

Hollywood's drive for risk reduction is implied in Figure 5 but clearly found in the long-term reduction of earnings volatility. Figure 6 presents an updated version of my index for the volatility of the earnings per firm of Hollywood's major studios. The figure is presenting *ex post* risk. For each year, I compute the percent rate of change of earnings from its five-year trailing average. Second, I measure, for each year, a trailing fifteen-year standard deviation of the computed rates of changes. Thus, the larger the standard deviation, the greater the volatility in the earning growth rates of Hollywood's previous fifteen years.

With data going into the late 1940s, the time series in Figure 6 confirms that, in terms of profits, the troublesome period was from the late 1960s to the last years of the 1970s, when risk spiked and stayed high. After the 1970s, risk steadily declined and continued to decline to 2019. The level of risk in 2019 is also lowest in the period from 1950 to 2019. The annotations in Figure 6 are meant to remind us of the film history that overlaps this reduction in risk. We might not know the contribution of each film to this decline–and there are many other important films in any story about Hollywood–but the coincidence of a significant reduction of earnings volatility occurring after the twilight of “New” Hollywood is unlikely an to be an accidental one.

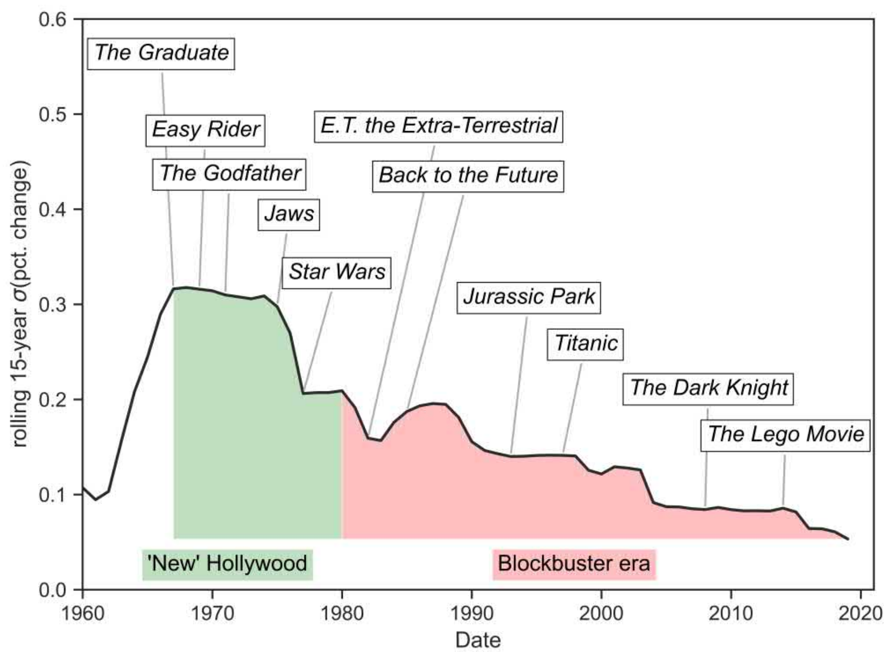

Figure 6: *Volatility of earnings per firm, 1943-2019*

Note: Before the percent change is calculated, series is smoothed with a five-year rolling average. Source: Annual reports of Columbia, Paramount, Twentieth Century-Fox, Universal, and Warner Bros. for operating income, 1943-1955. Compustat through WRDS for operating income, 1950-1992. Annual reports of Disney, News Corp, Viacom, Sony, Time Warner (Management’s Discussion of Business Operations for information on their filmed entertainment interests) for operating income of Major Filmed Entertainment, 1993-2019.

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