SPECIAL RATES FOR SPECIAL MATES

THE CASE AGAINST FILM INDUSTRY SUBSIDIES

Australia still needs to learn the lesson of failed car industry support, argues **Gene Tunny**

Last December, the Australian Treasurer Scott Morrison and Queensland Premier Anastacia Palaszczuk argued over their respective roles in luring the superhero *Aquaman* film production to the Gold Coast. In monetary terms, the Commonwealth made the greatest contribution, with $22 million in tax breaks offered to the film production. The beneficiaries are the highly profitable US companies DC Comics and Warner Bros, the producers of *Aquaman*.

The tax break that the *Aquaman* production will receive is called the Location Offset, which for *Aquaman* the Commonwealth has bumped up to 30% from the usual 16.5% applied to production expenditure within Australia. The Commonwealth will pay the *Aquaman* producers $22 million less whatever tax is owed by them for profits booked to the Australian operation. That is, the production may well receive a net payment of money from the Australian taxpayer. In that case, the government is not simply forgoing some tax revenue that is due. It is effectively providing a grant to the production. Unfortunately the Australian public is not informed of the net amount, owing to tax secrecy.[1]

The Commonwealth's generosity to the *Aquaman* production follows other government largesse in recent years. For the *Thor: Ragnarok* production (filmed at Village Roadshow Studios on the Gold Coast) and Ridley Scott's *Alien: Covenant* (filmed at Fox Studios in Sydney) assistance of $47 million was provided, while for *Pirates of the Caribbean 5* (filmed at Village Roadshow Studios), $21.6 million was offered.[2]

Although the Commonwealth provides the majority of assistance to film productions, state government assistance to the film industry is nonetheless significant. For example, the Queensland government has not disclosed any financial contribution, but a media release notes that, 'The Palaszczuk Government, through Screen Queensland, has invested an extra $30 million over four years to continue to attract large-scale film and high-end television productions to Queensland to increase jobs and expenditure into the State's economy.'[3]

So the Queensland government may have provided a sweetener to attract the *Aquaman* production, possibly as a rebate of payroll tax. The production will also benefit from the use of a large sound stage at Village Roadshow Studios on the Gold Coast that, oddly, the Queensland government covered the bulk of the costs for: $11 million out of a total cost of $15.5 million.[4] The government has noted that the new sound stage will be used during the 2018 Commonwealth Games, but it is likely that Village Roadshow will derive the bulk of the benefits from the sound stage over its life.

Given this record of government assistance to the film industry, we should ask what justifies the

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industry getting such special treatment. There may be a cultural case for some limited government assistance to film industry when there is substantial Australian content.[5] The film *Lion* is a recent example, but international co-productions such as *Aquaman* or *Thor: Ragnarok* are not.

Is the film industry's special treatment merely because of the glamour of Hollywood and the opportunity for politicians to appear on location or on the red carpet with movie stars? Or is there a genuine benefit from an economic perspective?

Consider first that the Queensland Premier did make an important point in her attempt to claw back some of the credit from the Federal Treasurer for luring the production, noting: 'Australia doesn't have a competitive tax system.'[6] The Premier was referring to the competitiveness of our tax system in relation to international film productions specifically, but her point is of broader applicability. For years, business groups and the Australian Treasury have been saying Australia's tax system is internationally uncompetitive, which is why the federal government has proposed reducing the headline company tax rate from 30% to 25%.

But why should the film industry—and particularly an international film production where the bulk of the profits will be repatriated overseas—get special treatment? Why not provide broader tax relief?

First dubious argument for special treatment: Jobs and multiplier benefits

Let us consider the arguments typically advanced by film industry advocates in favour of special treatment for the industry. First, it is argued the film industry deserves special treatment because it creates jobs, directly and indirectly. Associated with this argument is the view that government support is needed in the early stages to get the industry going so that it can reach a critical mass, an infant industry argument for public support.

The jobs argument is subject to a number of problems. It is typically very expensive for the government to create jobs. In *Aquaman*'s case, the $22 million tax break amounts to $22,000 to $37,000 for each of the 600 to 1,000 (temporary) jobs estimated to be supported by the production. And the Gold Coast does not appear to be suffering from an unemployment problem. The Queensland Government Statistician's office estimates an average unemployment rate for the Gold Coast of 5.6% compared with the state average of 6.1% in the 12 months to November 2016.

Other problems with the jobs argument are that, as noted above, the jobs are only temporary and many of the people getting the temporary jobs had other jobs anyway. Based on the experience with *Thor: Ragnarok*, many of the jobs are not that well paid and not as many jobs end up being created as expected. Computer-generated imagery (CGI) means that film productions need fewer people nowadays.[7]

Regarding the infant industry argument—that is, that the industry just needs a hand up in its early days until it becomes self-supporting—successive Australian governments tried this for over six decades with the car industry. It did not work, unnecessarily costing taxpayers billions of dollars in the failed attempt.[8] Typically, infant industries do not grow up to become adults that can support themselves.

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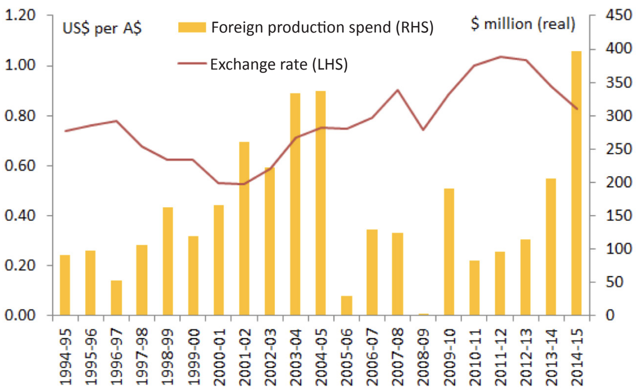
There may well be many attractive and interesting jobs in the film industry, but there are attractive jobs in all sorts of industries, including in mining. We are not playing to our strengths and we are setting ourselves up for disappointment—while giving local workers and businesses dependent on subsidies false hope—when we support industries that are uncompetitive without government assistance, as we learned with the car industry.

While there have been occasional flurries of meaningful foreign film production expenditure in Australia, these are not long-lasting, as we typically only have a chance of attracting big budget international productions when the exchange rate is low as it was in the late 1990s and early 2000s (see chart 1 overleaf). Even though the Australian

Chart 1: Foreign film production spend in Australia and exchange rate



Source: Foreign production spend data available from Screen Australia at http://www.screenaustralia.gov.au/fact-finders/production-trends/feature-production/all-feature-films.

dollar has fallen from around parity with the US dollar during the mining boom, our current exchange rate at around 76 US cents is still significantly higher than it was in the late 1990s and early 2000s when it was in the 50 to 60 US cents range. Hence governments have had to substantially increase financial incentives to attract Hollywood productions such as *Aquaman*, *Thor: Ragnarok* and *Pirates of the Caribbean 5*.

Much is made of purported multiplier benefits through the supply chain—for example, the Oxenford Bunnings on the Gold Coast has been identified as receiving a large stimulus from film productions. But all industries have linkages with others and the film industry is no different. There is no reason to suspect the film industry has more significant economic linkages than others. And the rationale for supporting the profitability of the owner of the Bunnings chain, Wesfarmers, a huge listed company with annual revenue of nearly $70 billion, is unclear. Furthermore, it is likely that many products purchased at the Bunnings store are imported and not manufactured in Australia, limiting the supply-chain impact.

Government guidelines on project assessment typically caution against the inclusion of multiplier benefits. This is because their inclusion can be misleading, as an alternative project may result in similar indirect benefits. As the Queensland government's *Project Assessment Framework: Cost-Benefit Analysis* guidelines note: '. . . although any project will generate economic activity, directly and indirectly, these effects could also be generated by an alternative use of the resources.'[9]

Finally, the amount of flow-on economic activity generated is a not a good criterion for evaluating costs and benefits. Ultimately, we are better off when we can produce outputs with fewer resources—that is, when our productivity increases. There is little virtue in using a lot of resources in the supply chain.

Second dubious argument for special treatment: film-induced tourism

Another argument that is increasingly used to justify special treatment of the film industry is that it leads to film-induced tourism and associated economic activity. Again, granted that tourism does have associated economic activity, catering to film-induced tourism means domestic resources would not be available for other possibly more productive and efficient activities, so induced economic activity is not a good argument for special treatment. And it is not really that clear that foreign film productions result in meaningful film-induced tourism. They may result in visits to particular locations within a country, but there is only patchy evidence that they result in a significant increase in tourists choosing to visit particular countries.

Internationally recognised expert on film-induced tourism, Sue Beeton of Latrobe University, has expressed scepticism of the supposed tourism boost provided by the archetypal Australian example, *Crocodile Dundee* (1986). She notes that, at the time, Australian tourism benefited from a floating (and lower) Australian dollar and that the film's star, Paul Hogan, had already been promoting Australia in the United States via a series of prominent television advertisements as part of the 'Come and say g'day' campaign.[10]

Most of the blockbusters that Australian taxpayers have subsidised have not promoted the country at all. For example, the Brisbane CBD was made to resemble downtown New York for *Thor: Ragnarok*, *Pirates of the Caribbean 5* was obviously not set here, and it is unlikely *Aquaman* would be set on the Gold Coast. *Lord of the Rings* may have had a more significant impact in New Zealand, as it featured beautiful locations readily identifiable as being in New Zealand that are also accessible to tourists. By contrast, the remoteness and difficulty of accessing the Kimberley, which featured in Baz Luhrmann's *Australia,* was always likely to limit the amount of film-induced tourism from that movie. Overall, there is therefore little reason and no hard evidence to suggest that film-induced tourism has been significant in Australia.

International developments

Some US jurisdictions that have previously heavily subsidised Hollywood productions, particularly the States of Florida and Louisiana, have scaled back their levels of support in recent years. Broadly speaking, they have not seen the economic and fiscal benefits that were purported to be generated by film productions. For example, in 2015 the Florida Office of Economic and Demographic Research estimated net fiscal losses from the state's sales tax exemption program for the film industry, finding a return on investment of 0.54: '. . . for every dollar of foregone sales tax collections the program returned fifty-four cents in other state revenue collections.'[11]

Unsurprisingly, Florida did not extend its film industry incentives that were due to expire in 2016.[12] This has resulted in claims that the film industry 'is one step away from dead',[13] which highlights the problem with subsidising unviable industries. Workers and businesses in Florida had come to rely on the film industry, and face substantial adjustment costs now that the industry has contracted. In the absence of previously heavily subsidised levels of activity, workers may have undertaken training or looked for other jobs. By supporting the film industry at an unviable scale in Florida, subsidies gave workers and businesses false hope.

Conclusion

It does not make sense for governments to pick winners and losers, but that is what they are doing when they extend special tax breaks to the film industry. Instead, we should focus on getting our overall tax and regulatory policy settings right so that we can attract foreign productions without having to offer special rates for special mates.

Endnotes

1 See Greg Jericho, 'How Much Does Australia Really Subsidise Overseas Films? And Is It Worth It?', *The Guardian* (26 October 2016).

2 Australian Government, *Mid-Year Economic and Fiscal Outlook*, 2016-17 and George Brandis, Campbell Newman and Ian Walker, Joint media release: 'Walt Disney Studios to film fifth Pirates of the Caribbean movie in Queensland, Australia'.

3 Queensland Premier Annastacia Palaszczuk, 'Queensland Secures *Aquaman* and More Than 600 Jobs', http://statements.qld.gov.au/Statement/2016/12/15/queensland-secures-aquaman-and-more-than-600-jobs

4 Minister for Transport and the Commonwealth Games, Stirling Hinchliffe, 'Mega Sound Stage New Home for "God of Thunder" Down Under', http://statements.qld.gov.au/Statement/2016/5/27/mega-sound-stage-new-home-for-god-of-thunder-down-under

5 See Gene Tunny, 'Moochers Making Movies', *Policy* (Autumn 2013), 9-15.

6 Queensland Premier, 'Queensland Secures *Aquaman* and More Than 600 Jobs'.

7 Ryan Keen, 'Workers at Gold Coast's Village Roadshow Studios Fume at Cuts from Thor: Ragnarok Starring Chris Hemsworth', *Gold Coast Bulletin* (29 July 2016), http://www.goldcoastbulletin.com.au/entertainment/workers-at-gold-coasts-village-roadshow-studios-fume-at-cuts-from-thor-ragnarok-starring-chris-hemsworth/news-story/7622dae0a4b27543d071e509fbfef76d

8 See, for example, Gene Tunny, 'Carr's Car Cash and Australia's Reform Malaise', *Policy* (Spring 2011), 15-22.

9 Queensland Government, *Project Assessment Framework: Cost-Benefit Analysis*, 16.

10 Sue Beeton, 'Film It and Will They Come?', https://www.latrobe.edu.au/news/articles/2008/opinion/film-it,-and-will-they-come

11 Office of Economic and Demographic Research, *Return on Investment for the Entertainment Industry Incentive Programs* (Tallahasee, Florida: OEDR, January 2015), 23.

12 Matthew Richardson, 'Quiet on the Set: Why This May have been Florida's Last Year to Renew Film Incentives', *Orlando Business Journal* (11 March 2016), http://www.bizjournals.com/orlando/news/2016/03/11/quiet-on-the-set-why-this-may-have-been-floridas.html

13 Fred Moyse, business manager of IATSE Local 477, quoted in David Robb, 'How the Koch Brothers are Killing the Florida Film Business', *Deadline Hollywood* (21 October 2016), http://deadline.com/2016/10/koch-brothers-florida-film-industry-tax-incentives-lobbying-1201838246/