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When Will States Get Smart and Stop Subsidizing Movies?

In 2010, actor Ted Danson, filming "The Big Miracle" in Alaska, set off a local ruckus when he urged federal regulators to block oil drilling off the state's shores. The source of the controversy wasn't so much that a Hollywood star was pontificating about a public issue; it was that the picture was receiving nearly $10 million in state tax incentives, and many Alaskans found Danson's ingratitude shocking. Soon after, Alaska lawmakers reexamined the state's subsidies for film and TV productions. Legislators first narrowed the program, and then, in 2015, as evidence mounted that the incentives didn't pay off economically, they killed it.

Alaska is hardly alone in getting mixed up in the TV and movie biz. Starting in the early 2000s, states rushed to grab a piece of what they saw as a lucrative industry. By 2010, all but six were offering producers special deals. But a backlash has ensued, with seven states terminating the deals and a handful of others reining them in. In a sensible world, it would only be a matter of time before all local governments deep-sixed their film initiatives.

The rise of celluloid subsidies resulted from a sharp increase in the 1990s of so-called runaway productions— movies and TV shows filmed in foreign countries for cost savings. The number of U.S.-conceived movies and TV series shooting abroad rose to 285 in 1998, up from 100 in 1990, according to a study by the consulting firm Monitor Co. More than eight in 10 of those productions were in Canada, where a roughly 20% decline in the Canadian dollar, plus tax rebates that the government offered to American producers, slashed the cost of filming by about one-fifth compared with a similar production in the United States.

After the Monitor report, states took action. A few had launched modest incentive programs in the 1990s, but Louisiana changed the game in 2002 when it vastly expanded its effort, offering producers an exemption on sales taxes and an investment-tax rebate. Hollywood started shifting productions to the Bayou State, leading others to follow Louisiana's lead. States were giving away about $1.5 billion to Hollywood annually by 2010, up from less than $100 million in 2002.

Tax deals have become so pervasive that projects ranging from massive summer blockbusters to the cheesiest TV reality shows get them. In 2015, all eight Oscar-nominated films, including the ultimate winner, "Birdman," received state tax breaks. Sometimes the money goes to movies that would almost certainly be made in a state anyway. A 2014 best-picture nominee, "The Wolf of Wall Street," is a tale of New York's finance world, made by a director, Martin Scorsese, long based in New York; nonetheless, the production won $30 million in incentives to film in … New York!

One reason the incentives have spread so quickly is that they're easy to get. States have long offered subsidies for industries like manufacturing, but typically these are long-term arrangements that involve firms building or renovating physical plants — binding employers to a site for years. By contrast, most celluloid incentives go to productions that shoot on location, which rarely requires investing long-term in infrastructure and generally produces only temporary employment. Being so mobile lets Hollywood executives shop for the best deal available on one film or season of a TV series and then go somewhere else if there's an even better deal.

This mobility makes it possible for producers to hold a state hostage, economically speaking. The producers of the hit Netflix series "House of Cards" filmed the show's first two seasons in Maryland, and then postponed production for Season 3, which was set to begin in early 2014, informing the state that they would move elsewhere if the subsidies weren't improved. The legislature caved.

Even signature productions have fled their hometowns when inducements dried up. After financing for Florida's production tax-credit program ran out, the makers of "Ballers" (an HBO series about an ex-Miami Dolphin player-turned-agent that was filmed in that city) shifted production to Los Angeles. Incentives have turned skilled workers into nomads, struggling to follow the celluloid migration.

The ephemerality of these jobs helps explain why the film industry produces so little local economic impact. Following the state tax-revenue slump that the 2008 fiscal crisis caused, several states launched studies of the film industry's economic effects to see if the budget hit was worth it — and the results were disheartening. A Massachusetts Department of Revenue 2013 report estimated that the state spent $128,575 in incentives for every film job that went to a Massachusetts resident, and $68,000 per position when jobs taken by residents of other states were included.

Much of the production money leaves the state. A Michigan analysis of film subsidies estimated that nearly half the money that productions in the state expended went elsewhere almost immediately; producers, it turned out, hired experienced out-of-state firms that moved workers into Michigan for the filming and then quickly left. In 2009, Michigan spent $37.5 million in tax credits to create the equivalent of just 216 full-time film-production jobs.

A broad evaluation of film-incentive plans in 40 states by USC researcher Michael Thom found that they produced a small uptick in jobs but had virtually no impact on wages and gross state product.

Notwithstanding these numbers, advocates keep pushing for incentives, arguing that a local film industry glamorizes a location and thus attracts tourists and educated workers looking to live in stimulating environments.

Not only are these nebulous claims difficult to justify, but given modern viewing tastes, local filming is just as likely to result in ridicule of a place and its residents as it is to glorify them. Just ask New Jersey residents what they thought of the reality series "Jersey Shore."

And in some places, the negatives have amounted to more than bruised egos and disappointing job gains.

When Michigan enacted a rich film-incentives program during the nation's 2008 economic slowdown, investors formed Motown Motion Pictures, an effort to create a Hollywood-style studio in down-and-out Pontiac. On the site of a former General Motors plant, the investors parlayed federal tax credits, state incentives, and money borrowed through municipal bonds — backed by Michigan's public-employee pension funds — to develop an $80 million facility, which would, it was hoped, employ up to 3,600 people.

But the initiative attracted just one major production — Disney's "Oz," which wound up employing a few hundred people, many from out of state. Meantime, as the payoff from the film credits failed to generate the economic activity that boosters promised, investors began making only partial payments on their borrowed money, sticking the pension fund with the bill for the rest. After the state stopped the incentives in 2015, it had to allocate $19 million just to pay off bad debt from the studio.

Still, some states persist in trying to lure handout-seeking Hollywood producers. Last summer, Ohio doubled to $40 million annually the film tax credits it offers. Pennsylvania, which had begun shrinking its subsidies, reversed course last year to add more.

All these efforts face a massive counterattack from the two giants of the industry. Three years ago, California increased its tax credits from $100 million annually to $330 million. New York, long the No. 2 spot for film and TV production, has gone further, dishing out $420 million a year.

Both California and New York are, then, now paying heavily to keep a business they once dominated without incentives. Indeed, one economist declared that states are in “perpetual competitive purgatory” for the film business — able to hold onto productions only as long as they pony up taxpayer dollars for them. The only way out of purgatory is all together, all at once.

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