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Capitalist Power, Distribution and the Order of Cinema

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WORKING PAPERS ON CAPITAL AS POWER

No. 2014/01

Capitalist Power, Distribution and the Order of Cinema

James McMahon

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The capitalist structure of Hollywood might not extinguish every flame of creativity from its film projects, but the interests of business leave scars and bruises on the aesthetic dimension of Hollywood cinema. Contemporary filmmaking is organized in such a way that the major firms of Hollywood have a dominant position in film distribution. This position enables the biggest film distributors and the other business interests involved, like banks that offer financing or firms that are looking for licensing and merchandising opportunities, to stand between film production and the market (Wasko 1982). As a consequence, 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 it. A film project can 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 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).

But must the dominant firms of Hollywood purposefully stand between the professional filmmaker and the moviegoer? To what degree should the business of film distribution shape and limit the social creativity of filmmaking? Why is it that, long after the collapse of the studio system in 1948, visible boundaries to the form and content of Hollywood cinema continue to persist (Bordwell 2006; Langford 2010)?

In this paper, the structure of Hollywood film distribution will be analyzed through the lens of risk. In both its technical and conceptual senses, risk is relevant to the study of

Hollywood's dominant firms. In the interest of lowering risk, the business interests of Hollywood look to predetermine how new films will function in an already instituted order of cinema, which includes the creativity of filmmakers and the habits of moviegoers. For instance, if a major studio is trying to determine, with some degree of certainty, the potential theatrical attendance for a new romantic comedy, there is a benefit if the larger social relations of cinema—both the creation and consumption of films—are determinable because they are orderly. And if the social relations of cinema are determinable because they are orderly, Hollywood's biggest distributors can select film projects with a greater degree of confidence.

The first part of this paper will offer conceptual tools to analyze the contemporary Hollywood film business and its mechanisms of distribution. Concepts from the capital-as-power approach will be used to study the major Hollywood distributors as a group, which I will be calling "major filmed entertainment." The concepts of strategic sabotage, which was first developed by Thorstein Veblen, and capitalization are fundamental to the capital-as-power approach. They will help us understand how major filmed entertainment's control of distribution extends into the creativity of production (what films are being made?) and the social habits of consumption (what films are being watched?).

The second part will focus on risk, which is an important component of the logic of capitalization. This presentation of risk will explain why, to major filmed entertainment, the social world of cinema is an *instrumental order*. While risk is specifically about the size and pattern of future earnings, it is also an indirect prediction about the stability of the social conditions that would help translate potential earnings into an actual stream. The social world of cinema has a bearing on major filmed entertainment's degree of confidence, which refers to the ability for capitalists to make predictions about future earnings. Moreover, major filmed entertainment must decide how its effect on the social creativity of cinema will be strategic. If it stands between film production and the social world of cinema, major filmed entertainment must control the pace and direction of social creativity but without suffocating it completely.

The third part will argue that the repetitive, habitual qualities of Hollywood cinema are a defense against the possibility of aesthetic overproduction. Importantly, the term

“overproduction” is being used in the same way that Veblen uses it. Aesthetic overproduction is the language of business, not art; it occurs when aesthetic decisions undermine the price of a film, regardless of how they shine in the light of aesthetic, cultural and political judgment.

The fourth part of this paper will offer an empirical example of how risk perceptions would determine the strategy of film distribution. In a recent dispute over the theatrical revenues of *Iron Man 3* we saw Disney fight to increase the share of gross revenues that goes to the major film distributor. The timing of Disney’s strategy to push for a greater share is consistent with the historical development of risk in Hollywood film distribution.

Capitalist Power: Strategic Sabotage and Capitalization

The choice to study Hollywood film distribution with a concept of risk derives from my general interest in the capital-as-power approach, which is a larger theory about capitalism and the character of capital accumulation. First developed by Nitzan and Bichler, the capital-as-power approach understands capitalism to be a mode of power, and not a mode of production or consumption. Thus, this approach challenges longstanding assumptions about the nature of so-called “economic” value and the measurement of capital. According to Nitzan and Bichler, the theoretical isolation of an economic sphere and the privileging of material productivity, utility or labour-time, produce logical and empirical problems in both neo-classical and Marxist approaches. Essentially, when it is time to explain *what* gets accumulated, the assumption that capital is an objective quantity of material production or consumption leaves the political economist with the impossible task of separating “real” value from nominal prices:

Utile [in neo-classical economics] and abstract labour [in Marxist political economy] do not have fundamental quantities that can be measured. They therefore have to be derived in reverse, [from nominal prices,] the very phenomena they try to explain. And even this inverted derivation falls apart, because it is built on assumptions that are patently false if not logically contradictory (Nitzan & Bichler 2009, p.144).

Nitzan and Bichler, on the other hand, circumvent the “real”-nominal distinction because they reject the ideas that produce this methodological quagmire in the first place: that politics and economics are separate, and that social power can only ever assist or disturb capital

accumulation, which is, theoretically, a separate process. Instead, Nitzan and Bichler put power at the heart of capital. Material production still matters, but a specific labour process or production function does not imbue an object with value. Rather, the quantities of capital are symbolic reflections of organized power *over* productivity and social creativity.

This section will only cover some of the fundamental ideas of the capital-as-power approach, just enough to provide a theoretical backdrop for our analysis of risk and the activity of major filmed entertainment. This theoretical backdrop is important for three reasons. First, according to Nitzan and Bichler, risk is an elementary particle of the capitalist mode of power (Nitzan & Bichler 2009, chap.11). Second, assumptions about economics being “power-free” lead other analyses of risk to conclude that, ultimately, major filmed entertainment is passive or ineffective against a level of risk that is “inherent” to the production, distribution and exhibition of films (Litman 1983; De Vany 2004; Nelson & Glotfelty 2012; Pokorny 2005). A power theory of risk, on the other hand, is free to investigate the historical development of risk in the Hollywood film business, such as the efforts of major filmed entertainment to sustain or even strengthen its dominant position in the world of cinema (McMahon 2013). Third, the capital-as-power approach resonates with—if only partially—other theories of Hollywood that already understand major filmed entertainment to possess “distributional power.” Indeed, this paper is entering an intellectual environment where other political economic theories of culture in general and Hollywood cinema in particular are addressing the role and effect of institutional power on the creation and distribution of mass culture (Hozic 2001; Leaver 2010; Kunz 2007; Babe 2009).

In order to redefine capital *as* power (not capital *and* power), Nitzan and Bichler renovate the set of concepts that ordinarily explain the mechanisms of capitalist society—e.g., commodification, production, distribution, finance and accumulation. A major springboard for Nitzan and Bichler’s theory of capitalist power is Thorstein Veblen’s definition of capital, which is built upon a conceptual distinction between business and industry. For Veblen, capital belongs to the realm of business and not the realm of industry. The ways and means of industrial production may or may not be beneficial, pleasurable or useful; but what is or is not

beneficial, pleasurable or useful about material production depends on what *cultural* and *political* ideas hold court at a certain moment in time (Veblen 2006a).

On the other hand, the nominal price of an asset has little to do with the material magnitude of productivity, because industry is not the “real” essence of capital. A stock of technology, knowledge, or energy says nothing about how material and intellectual benefits are *distributed* amongst members of a community. Capital, for Veblen, “is a pecuniary concept, not a technological one; a concept of business, not of industry” (Veblen 2006b, p.359). Veblen is not denying the influences of technological efficiency and the sweat of labour on the success of business—indeed, production is a necessary condition. But capitalization is not measuring the utility of technology or the efficiency of the production process; it is measuring the ability to make a profit.

As Nitzan and Bichler note, Veblen’s distinction between business and industry reveals how prices and earnings do not reflect “productivity per se,” but “the control of productivity for capitalist ends” (Nitzan & Bichler 2009, p.223). In capitalism, control and power stand outside industry (Nitzan & Bichler 2000, p.78). Business is the *power* of private ownership over industry. The owner derives an income from his or her legal rights to sabotage industry, to “keep the work out of the hands of the workmen and the product out of the market.”(Veblen 2004, p.66) Just as importantly, these rights of private ownership need not be exercised for sabotage to be effective: “What matters is the *right* to exclude and the *ability to exact terms for not exercising that right*”(Nitzan & Bichler 2009, p.228). In fact, the sabotage of industry is always strategic—too little sabotage can be just as disastrous for earnings as too much sabotage. The best strategy for business is to “charge what the traffic will bear.” This, according to Veblen,

consists, on the one hand, in stopping down production to such a volume as will bring the largest net returns in terms of price, and in allowing so much of a livelihood to the working force of technicians and workmen, on the other hand, as will induce them to turn out this limited output (Veblen 2004, p.67).

Thus, in order to exist, a film *business* must be able to threaten to withhold the products of the industrial processes it controls. Free limitless production is not sound business strategy:

The only way ... spending [on productive capacity] can become profit-yielding *investment* is if others are prohibited from freely utilizing its outcome. In this sense, capitalist investment—regardless of how 'productive' it may appear or how much growth it seems to 'generate'--remains what it always was: an act of limitation (Nitzan & Bichler 2009, p.233).

Moreover, the Hollywood film business must also decide how it will strategically sabotage the social creativity of filmmaking. What creative endeavors should it support? Which film projects must be radically altered before they ever find financing or distribution? Which ones should be rejected outright?

When capitalist in form, this power over the pace and direction of industry is connected to the common terms and symbols of modern finance, the formal language of business enterprise. The foundation of modern finance, according to Nitzan and Bichler, is the logic of capitalization. This logic is quantitative in form and forward-looking in orientation. Capitalization is the discounting of *expected* future earnings to present prices.¹

What is capitalized is the “income-stream” that is attached to an object through ownership:

The capital value of a business concern at any given time, its purchase value as a going concern, is measured by the capitalized value of its presumptive earnings; which is a question of its presumptive earning-capacity and of the rate or co-efficient of capitalization currently accepted at the time; and the second of these two factors is intimately related to the rate of discount ruling at the time (Veblen 2004, p.219).

While the ultimate concern of the capitalist is to make an actual profit, “presumptive earnings” are only ever expectations about future streams of income. Thus, capitalists attempt to be forward-looking themselves; they try to account for all of the social conditions that could potentially affect how potential earnings become *real*. In the case of the Hollywood film business, expectations about future earnings account for, among other things, the established culture of cinema. Only with reference to the larger world of cinema could a capitalist determine whether a film property has any value—not as art, but as an asset.

This section is meant to give us concepts that can then be applied, in more detail, to the strategies of major filmed entertainment. The logic of capitalization and its institutional

¹ For a concise anthropology of capitalization, see (Nitzan & Bichler 2009, pp.147–166).

foundation, the ability for business interests to sabotage industry, will frame our analysis of risk perceptions and the social relations of cinema.

Risk and the Order of Cinema

Major filmed entertainment, as a capitalist institution, is forward-looking. Its financial expectations concern the *future* of Hollywood cinema and mass culture in general. But if this is the case, how can we understand the role of risk in the capitalization of cinema?

Capitalization, Nitzan and Bichler clarify, is not a crystal ball that can see into the future. Rather capitalization is a ritual, one that is attempting to estimate how a stream of income and its necessary social conditions will carry into the future. The difference between prophecy and estimation is significant. Capitalist society, with its myriad of qualities, can only carry into the future through the activities and beliefs of people. It is also possible for social behavior to change, sometimes in ways that capitalists could never expect. But whether the composition of capitalist society appears to be frozen or in flux, the future expectations of business enterprise can never find an Archimedean point that is outside of society or safe from the winds of history. Consequently, risk perceptions are an elementary particle of capitalization.

Risk is a partly subjective factor that shapes the way a claim on future earnings is assessed. If capitalization discounts the size and pattern of a future stream of earnings, risk is the expression of the “*degree of confidence capitalists have in their own predictions.*” (Nitzan & Bichler 2009, p.208) Nitzan and Bichler argue that this degree of confidence appears in the capitalization equation as a risk coefficient (δ), which we can write in simplified form (for the moment we are ignoring hype (H), which is in the numerator):

$$K_t = \frac{EE}{\delta \times r_c}$$

Capitalization at any given time (K_t) is equal to the discounted value of expected future earnings (EE). Expected future earnings are discounted by two variables: a rate of return that capitalists feel they can confidently get (r_c) and the risk coefficient (δ). A smaller δ indicates a greater

degree of confidence and a larger capitalization, and vice versa when δ is larger. If, for instance, there is growing uncertainty about the size and pattern of a future stream of earnings, δ will increase and the asset in question will be discounted to a lower present price.²

Risk is also an important variable in Nitzan and Bichler’s conceptualization of power. Put briefly, Nitzan and Bichler understand power as “confidence in obedience: it represents the certainty of the rulers in the submissiveness of the ruled”(Nitzan & Bichler 2009, p.398). Thus, if we were to translate δ into the language of power, risk is about the probability that future social behavior will be heteronomous. Heteronomy speaks to the duration and strength of obedience. For instance, heteronomy can exist when individuals internalize the goals of a repressive society, when the persistence of fear, violence and poverty actually helps *social* power acquire an “unshiftable weight”(Castoriadis 1998, p.109). Yet, however strong, a state of heteronomy is always threatened by the possibility that individual autonomy will resurface in the future. Even the largest empires or the most repressive political regimes teach us that the present is never an absolute guarantee that obedience will carry on indefinitely. Therefore, risk is the product of society’s inability to fully extirpate the potential for individual autonomy to resurface in the future.³

With respect to the Hollywood film business, risk perceptions account for the possibility that the future of culture will be 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. In fact, the risk perceptions of major filmed entertainment 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).

² For an expanded version of this explanation, see (McMahon 2013).

³ While he was not using the same terms, we can find the germ of this idea in Spinoza’s *Theological-Political Treatise*: “A person’s judgment, admittedly, may be subjected to another’s in many different and sometimes almost unbelievable ways to such an extent that, even though he may not be directly under the other person’s command, he may be so dependent on him that he may properly be said to be under his authority to that extent. Yet however much skillful methods may accomplish in this respect, these have never succeeded in altogether suppressing men’s awareness that they have a good deal of sense of their own and that their minds differ no less than do their palates” (Spinoza 2007, chap.20, §2).

As Bill Grantham notes, this thorough evaluation of risk is evident at the level of project financing: “film risk is variable and the degree of risk is subject to structural considerations as well as the greater or lesser degree of ‘riskiness’ inherent in any project's subject matter, or associated with its writer, director, stars, and so on”(Grantham 2012, p.200). Based on what was said above, Grantham’s use of the term “inherent” can now be seen as misleading. “Riskiness,” as it is being used here, is a term of business, not art. We may be tempted to label a film “risky” if it challenges social taboos, or if it, like Chytilová’s *Daisies*, uses the cinematic medium to critique political regimes. A filmmaker can also be said to be taking an “aesthetic risk,” such as when he or she develops an untested cinematic style. However, indeterminate creativity in the realm of aesthetics or the development of political cinema can both exist separately from the logic of capital. In fact, it is Veblen’s point that pecuniary value is not simply reflecting political, cultural or aesthetic quality. Rather, the vested interests of Hollywood flip the definition of value. Under the logic of capital the potentials of creativity, both anthropological and technological, are judged on the terms of capitalist investment. We might always have poorly made films, but under capitalism, a bad movie is one that falls well below its financial expectations.⁴

Let us now begin to explore how, with one eye on film projects themselves and the other on the social world of cinema and culture at large, major filmed entertainment uses its oligopolistic control of distribution to create an *order of cinema*. This section will define, in more concrete terms, what an order of cinema is and how its social character is relevant to risk perceptions. The next section will explore why major filmed entertainment has an incentive to create a determinable order of cinema through sabotage.

The creation of order does not eliminate risk entirely. Rather, from the perspective of major filmed entertainment, the industrial art of filmmaking and the social world of mass culture should be orderly enough for each new film project to be weighable and calculable,

⁴ According to Jonathan Rosenbaum, film journalism helps perpetuate the idea that a movie’s quality is signified in its financial success. Of concern is a recent trend where two film business terms—“turkeys” (bad movies) and “bombs” (financial disasters)—are conflated in film journalism. This conflation perpetuates a sort of shorthand for the general audience, where a film must be a turkey because financial data in Hollywood tell us it was a bomb (Rosenbaum 1997).

where estimations about a film's social significance can be, with a degree of confidence, translated into expectations about future streams of income. This degree of confidence is created and sustained through institutional power. The various business strategies of major filmed entertainment affect risk perceptions just as much as they affect earnings: the repetition of genres, sequels, remakes; the cult of movie stars; the institution of false needs and wants through the sales efforts of business; and the dual ability to make movies resonate with *established* desires and to ready the industry of filmmaking for potential changes in social desire. These techniques schematize the social relations of cinema (Adorno 2004). Social habits, attitudes and values, in this environment, become things that can fit into a "knowable" distribution, which then can be quantified as "risk."

A film's relationship to other films and the social habits of consumers, who watch some films at the expense of others, arranges the social world of cinema into an order. Furthermore, the composition of the cinematic world has, under capitalism, a universal language: price. When a film is given an expected theatrical revenues plateau (e.g., \$20 million, \$70 million, \$300 million), the Hollywood film business is making an estimate about the future popularity of the film (Litman 1998, p.44). This financial estimate automatically positions a film among other films. For instance, an expectation of \$200 million in theatrical revenues means something in relation to how other contemporary films are capitalized. Depending on how other films are capitalized, capitalists could expect that \$200 million in box-office revenues would make this film one of the top grossing films of its year of release (McMahon 2013).

On the question of how the social dimensions of film affect risk perceptions of major filmed entertainment, there are plenty of examples. Some are found in the annual reports of the relevant firms. Time Warner, the owner of Warner Brothers Studios, lists risk factors relating to filmed entertainment and leisure time:

[Time Warner] must respond to recent and future changes in technology and consumer behavior to remain competitive and continue to increase its revenues.... [Time Warner] faces risks relating to increasing competition for the leisure and entertainment time and discretionary spending of consumers, which has intensified in part due to technological developments and changes in consumer behavior.... The popularity of [Time Warner's] content is difficult to predict, can change rapidly and could lead to fluctuations in the

Company's revenues, and low public acceptance of the Company's content may adversely affect its results of operations (Time Warner 2011, p.13).

This "public acceptance of content" is important. If a film property is to be valued as an *asset*, its form and content must be evaluated—even before the film is made—in the light of social meaning (Vogel 2011, pp.99–106). For example, on account of its style and subject matter, film property may lose its relevance (i.e. pecuniary value as property) as social meaning changes with the passage of historical time:

...war epics, for instance, might be very popular with the public during certain periods but very unpopular during others. Some humor in films is timeless; some is so terribly topical that within a few years audiences may not understand it. In addition, because everything from hair and clothing styles to cars to moral attitudes changes gradually over time, the cumulative effects of these changes can make movies from only two decades ago seem rather quaint (Vogel 2011, p.101).

On the problem of treating a film as a long-lived asset, Stephen Prince is correct to argue that part of the uncertainty relates to the technological changes in distribution (theater, VHS, DVD, etc.). "Determining the profitability of a given film," writes Prince, "can be an elusive undertaking because so many revenue sources figure into this determination..."(Prince 2000, p.xx). However, part of the reason why so few films are released into the public domain, regardless of technological changes, is because every significant shift in social-historical relevance gives major filmed entertainment another opportunity to re-capitalize its old film property.

The tragic death of an actor can make their filmography popular again; a new channel of distribution, like Turner Classic Movies, can open future income streams for films that have not been distributed in decades; or, genres, like science fiction and musicals, can suddenly rebound in significance. These examples contextualize the valuation of film libraries, which are often key assets in the mergers and acquisitions of media conglomerates (Vogel 2011; Kunz 2007). Indeed, *Casablanca* is still an asset (for Time Warner), and would expectations about its future earnings not incorporate its mythological position in popular histories of cinema? How would one re-capitalize *Casablanca* if the American Film Institute, in its next round of publishing lists of great American films, knocked this film down in rankings, or removed it from "AFI's 100 Years...100 Movies"?

Although it occurs infrequently, changes to the social order of cinema can be so abrupt that great uncertainty surrounds the capitalization of film property. One such abrupt change was the transition from silent film to sound in the late 1920s. For example, the uncertainty of whether silent films would still have a place alongside “talkies” forced Albatross, a medium-sized French company, to temporarily stop all film production, as they were unable to price their own property:

We have not been able to do it [assess the book value of completed films], because the sudden shock that shudders through the motion picture markets because of the apparition of sound film, makes every estimate, even approximately, impossible, especially for the older films. At present, most foreign countries have stopped nearly completely to buy them. We must put on hold all film production until the situation becomes clear.(Conseil d'Administration , April 25, 1929, quoted in Bakker 2004, p.64)

Although less severe than its affect on Albatross, the beginnings of a sound cinema even created uncertainty for the studios that were actively developing sound technology.⁵ Because the aesthetics of sound cinema were still too open-ended during this nascent period, the major studios agreed to place a temporary moratorium on their own research and development. To really pursue sound cinema as a business enterprise, Hollywood studios first needed to decide if they were going to export American “talkies” in English, or whether they would be more accommodating to the languages of other countries.⁶ Just as significantly, they did not yet know what a sound film should even look like (Hanssen 2005, p.102). Music and sound effects could be retro-fitted onto films that were originally silent; a film could be released in two versions, one silent and another in sound; or, a film could be silent for the majority of its running time, except for a few scenes that have dialogue or singing (e.g., *The Jazz Singer*).

Certain journalists have been fortunate enough to witness how this problem of social significance manifests on a film set or the studio lot, when studio executives, producers and directors argue over the form and content of film projects. In Lillian Ross' *Picture*, a book that was a product of her reporting on the filming of *The Red Badge of Courage*, we find a recurring

⁵ In a partnership with Western Electric, Warner Brothers was developing a “sound-on-a-disc” system in 1926. The Fox Film Corporation, which was to merge with Twentieth Century Pictures in the 1935, was the first to develop a means of putting sound on film stock (Hanssen 2005, p.90).

⁶ As Kristin Thompson notes, “In early 1928, Louis B. Mayer declared that he was not worried [about the language problem]; he assumed that the popularity of American films would lead to the use of English as a universal language” (Thompson 1985, p.158).

theme of creativity and risk. Many of the daily struggles over how the film was to be filmed were the consequences of MGM's management and their uncertainty about whether Americans in 1951 were even interested in seeing a film version of an 1895 book about the Civil War (Ross 2002). John Gregory Dunne spent one year investigating the workings of Twentieth Century-Fox in 1967. One of Dunne's stories is crass yet illustrative of how the qualities of cinema can become elements of risk perceptions. Dunne describes a meeting where Twentieth Century executives were talking about the studio's plan to distribute *Tony Rome* in Israel. The film, which is a detective story and stars Frank Sinatra, is heavy on American slang. Two people in the meeting, Harry Sokolov and Stanley Hough, were concerned that much of the dialogue would not resonate with an Israeli audience. Richard Zanuck, who at the time was executive vice president in charge of worldwide production, was not as worried, as it was always possible to "dub it in local slang." As Dunne then notes, Owen McLean, the head of casting, still worried about one scene in particular, which he feared may be untranslatable: "there was a scene in the picture based on the *double-entendre* of an old woman calling her cat a 'pussy.'" (Dunne 1998, p.154)

Uncertainty about the effectiveness of a *double-entendre* is not an insignificant concern. In fact, a PricewaterhouseCoopers report can give us a sense of how a shift in what is considered funny or entertaining can create real financial problems for those that are on the hook for the costs of a film. A change in the world of cinema can cause a "pre-release" write-down, which happens when the costs of the film become larger than its future expected earnings. As the report states, "pre-release write-downs generally occur when there is an adverse change in the expected performance of a film prior to release." Of the five examples about what can adversely change the future expectations of an individual film, four of them relate to the social relations of cinema:

- "Market conditions for the film that have changed significantly due to timing or other economic conditions;"
- "Screening, marketing, or other similar activities that suggest the performance of the film will be significantly different from previous expectations;"
- "A significant change to the film's release plan and strategy;" and,
- "Other observable market conditions, such as those associated with recent performance of similar films." (Anon 2009, p.26)

It may also be possible to see how quantitative changes to the order of cinema have both quantitative and qualitative bearings on risk perceptions. Figure 1, for example, compares the output of major studio film distribution in the United States with independent U.S. distribution from 1933 to 1986. The two bottom series are rates of changes from 5-year trailing averages. What we see is a noticeable change to the pattern of independent film distribution from the late 1950s onwards.

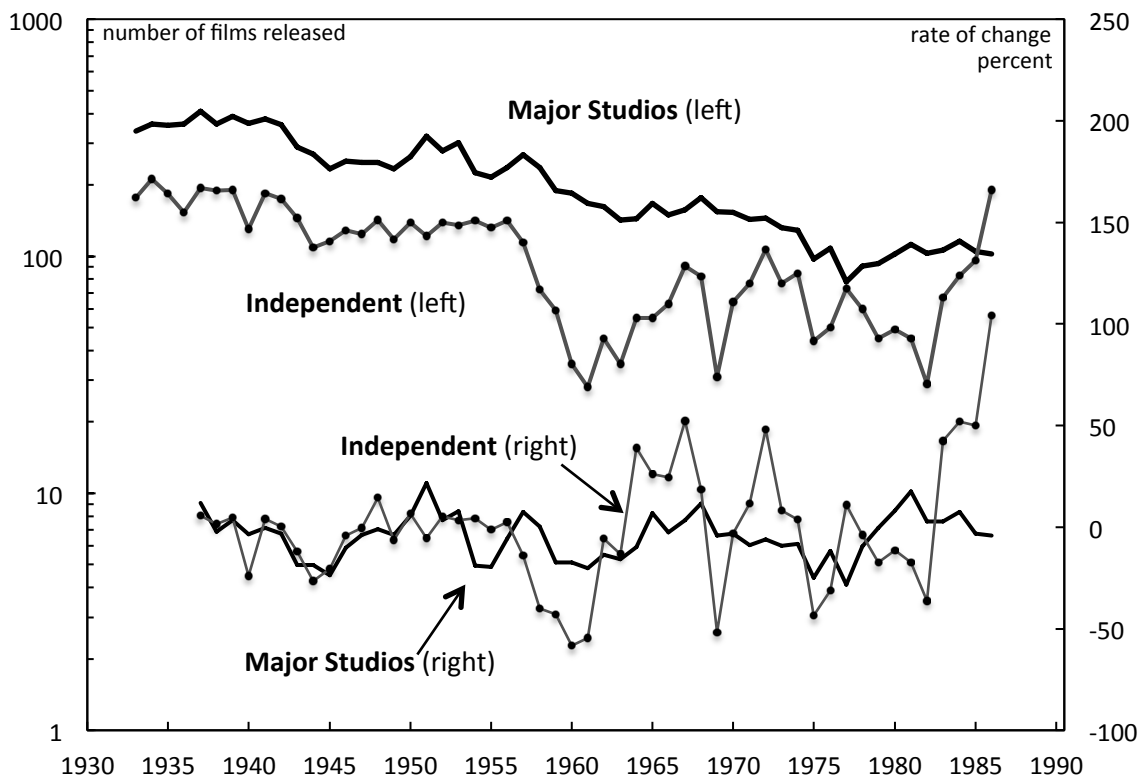


Figure 1 The Shape of American Film Distribution, 1933 – 1986

Source: Joel W. Finler, *The Hollywood Story*, 3rd ed. (New York: Wallflower Press, 2003) 376-377, for independent releases and MPAA releases from 1933-1986.

On its own, Figure 1 cannot tell us how risk perceptions changed in this era; it can, however, help us visualize how the composition of American film distribution can change over

time, which is relevant to risk perceptions. For one thing, the new size and pattern of independent film distribution from 1960 to 1986 is a sign of the changed relationship between major filmed entertainment and independent filmmakers, which is summarized by Tom Schatz:

Adopting and modifying the UA model, the studios concentrated on financing and distribution rather than production. Lacking the financial resources and contract talent to mass-produce movies for a declining market they no longer controlled, the studios now relied on independent producers to supply "packaged" projects that the studios would "green light" for production, putting up some portion of the budget in exchange for the distribution rights, and often leasing out their production facilities as well. This meant ceding creative control to independent producers and freelance directors, and also to top stars whose "marquee value" gave them tremendous leverage and a share of the profits (Schatz 2008, p.16).

The pattern of independent film production is significant because, from the 1950s onwards, major filmed entertainment is not simply distributing films that are produced and financed "in house."

All of these examples help explain what is included in the risk perceptions of major filmed entertainment. So how important is the role of risk in the capitalization of cinema? Figure 2 suggests that a high degree of confidence about the social world of cinema is of great importance to major filmed entertainment. The upward trending series stands as a simple measure of "choice" that is available to an American moviegoer. It measures the ratio of the number of films released in the United States to U.S. attendance per capita—in other words, how many movies are technically out there and how many times does the average American venture into the world of (theatrical) cinema? Even this simple series tells us that major filmed entertainment has little interest to let the social world of cinema out of its purview. *If* the world of cinema was flat, and *if* power was not used to shape social creativity and the habits of moviegoers, the series "Choice" would present a business environment where too many movies are available and where risk may be increasing—as the ratio increases, the probability that a free, sovereign moviegoer chooses one particular film from a large array decreases. Thus, the difference between what is technically available and the limited, controlled world of mainstream Hollywood cinema helps explain why risk is so important to the power of major filmed entertainment.

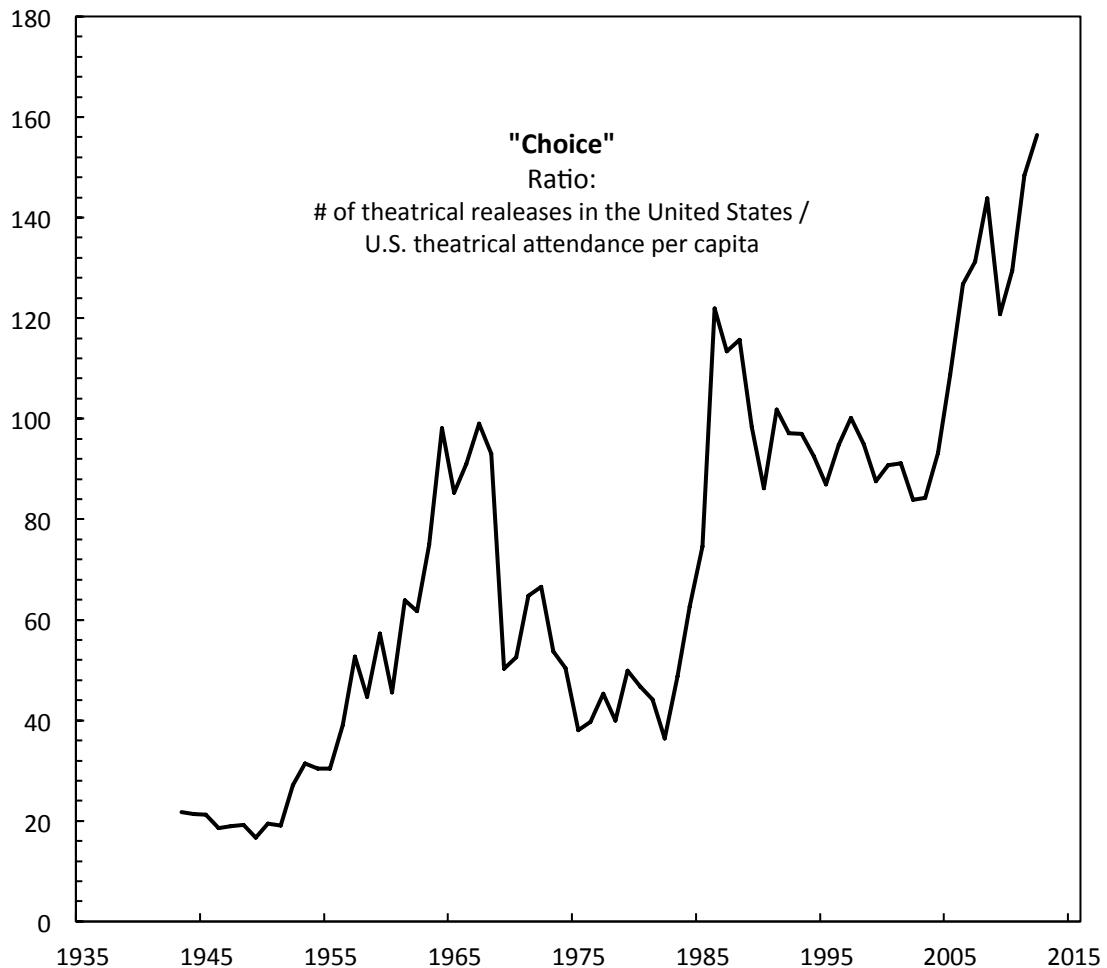


Figure 2 "Choice," If the World of Cinema Was Flat

Note: For 1943-1959, attendance per capita = (total box-office receipts/average ticket price)/U.S. population.

Sources: Joel W. Finler, *The Hollywood Story*, 3rd ed. (New York: Wallflower Press, 2003) 376-377, for total releases and MPAA releases from 1933-2002; MPAA Theatrical Market Statistics for total releases and MPAA releases from 2003-2012. Joel Finler, Joel W. Finler, *The Hollywood Story*, 3rd ed. (New York: Wallflower Press, 2003) 376-377, for box-office receipts from 1943-1959; Bradley Schauer and David Bordwell, "Appendix: A Hollywood Timeline, 1960-2004," in *The Way Hollywood Tells It: Story and Style in Modern Movies* (Berkeley: University of California Press, 2006), 191-242, for total attendance 1960-2004; <http://natoonline.org/data/admissions/> for attendance 2005-2012. Global Insight for total United States population.

Figure 3 supports this argument. It measures U.S. attendance per capita. After a sharp decline that is most likely caused by the advent of television, U.S. attendance per capita has stayed at roughly the same level since the 1960s. Risk might be a top priority if more and more movies are *technically* available, but the average American is only seeing about five films per year. With an ability to create a determinable order of cinema that keeps the spotlight directly on its own films, the goal of major filmed entertainment might be to determine *which* five films the average moviegoer sees. Hollywood may certainly try to push for people to see more films in theatres. However, with historical evidence that U.S. attendance per capita has remained constant for over fifty years, the alternative strategy is for major filmed entertainment to know that moviegoers will, for example, only see their big blockbusters (Cucco 2009).

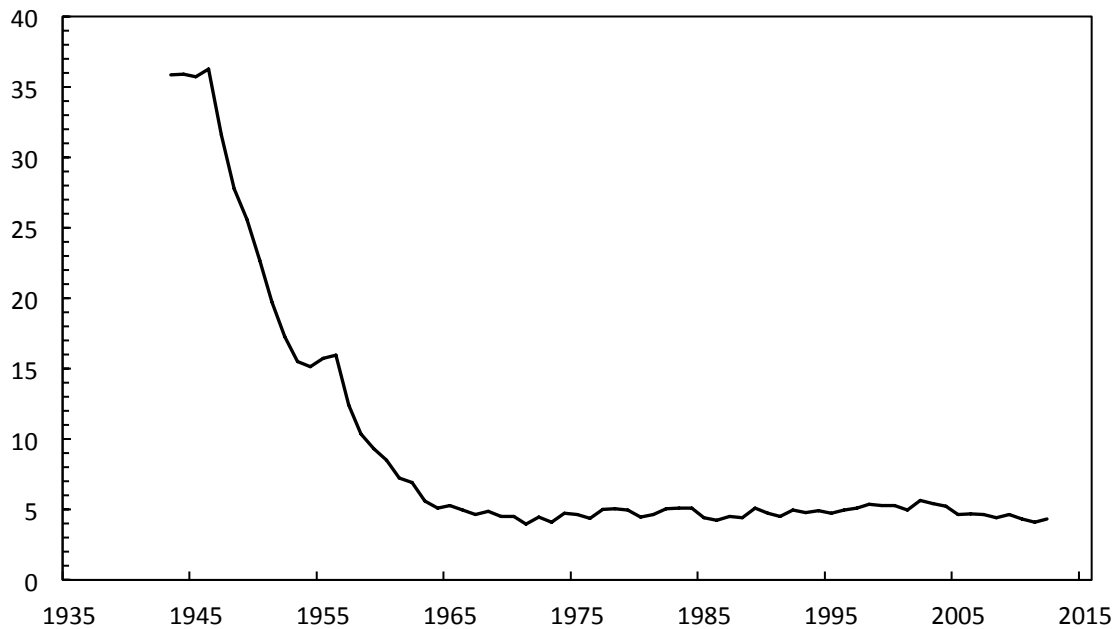


Figure 3 U.S. Theatrical Attendance per capita

Note: For 1943-1959, attendance per capita = (total box-office receipts/average ticket price)/U.S. population.

Sources: Joel Finler, Joel W. Finler, *The Hollywood Story*, 3rd ed. (New York: Wallflower Press, 2003) 376-377, for box-office receipts from 1943-1959; Bradley Schauer and David Bordwell, "Appendix: A Hollywood Timeline, 1960-2004," in *The Way Hollywood Tells It: Story and Style in Modern Movies* (Berkeley: University of California Press, 2006), 191-242, for total attendance 1960-2004; <http://natoonline.org/data/admissions/> for attendance 2005-2012. Global Insight for total United States population.

Digital technology and the Internet are being incorporated into the particular strategy of trying to shape an order of cinema without necessarily being able to get people to see more films per year. At Epagogix, a consulting firm of sorts, a database has been created to quantify the smallest details of a potential film project. After having broken down a client's script into separate elements, the database produces "values" for each element, as if the film was one big production function. Malcolm Gladwell witnessed Epagogix's process in 2006:

[Copaken, the co-founder of Epagogix,] started with the first film and had the neural network make a guess: maybe it said that the hero's moral crisis in act one, which rated a 7 on the 10-point moral-crisis scale, was worth \$7 million, and having a gorgeous red-headed eighteen-year-old female lead whose characterization came in at 6.5 was worth \$3 million and a 9-point bonding moment between the male lead and a four-year-old boy in act three was worth \$2 million, and so on...(Gladwell 2006, p.143).

The New York Times recently covered a company similar to Epagogix, one named World Wide Motion Picture Group (Barnes 2013). By running their own database and surveying the tastes of moviegoers, World Wide offers advice about the final construction of a Hollywood film. For example, World Wide argues that it is risky for any film to have a bowling scene. Or, if you make a superhero movie, it is better, with respect to financial performance, when the protagonist is a "guardian superhero" and not a "cursed superhero."

Google is doing something similar. Focusing on the Internet use of potential moviegoers, Google argues that risk is a top priority in the capitalization of cinema. For example, a 2013 Google Whitepaper begins with a problem scenario:

It's Friday night and you're thinking about seeing a movie. Your thought process might sound a little like this: What's in theaters right now? What's that new movie my friend was just talking about a couple days ago? That trailer I saw for another film a few weeks ago looked interesting. Another movie review I read sounded promising...what should I see? (Google 2013, p.1).

The "problem" is that leisure-time is too open-ended. The solution, however, is more for the capitalist than the moviegoer that is using the Internet to make a decision on Friday night. To help quantify movie magic, Google tracks searches, YouTube views and advertisement clicks. It keeps data on searches for specific titles, especially big names like *The Dark Knight* or *The Avengers*. Google also analyzes how the Internet habits of potential moviegoers become less specific and more generic in slow periods between blockbuster films.

Google claims that all of this data lends confidence to Hollywood's expectations about the future performance of cinema in two ways. First, the data provided by Google can tell marketing teams how to adjust marketing strategies to "either capture the attention of the 'curious' moviegoer, or deepen audience engagement with a blockbuster title"(Google 2013, p.3). Second, and more significantly, Google states that Internet data can help Hollywood predict future movie sales. For instance, "in the seven day window prior to a film's release date, if one film has 250,000 more search queries than a similar film, the film with more queries is likely to perform up to \$4.3M better during opening weekend. When looking at search ad click volume, if a film has 20,000 more paid clicks than a similar film, it is expected to bring in up to \$7.5M more during opening weekend"(Google 2013, p.5).

The Threat of Aesthetic Overproduction

If order is desirable for the capitalization of cinema, we begin to see why major filmed entertainment's control of distribution is so significant. Control of distribution is not simply about the level of future earnings. If major filmed entertainment is unable to stand between the filmmaker *and* the consumer, an administered relationship between the aesthetic dimension of cinema and established social meaning breaks down. Confident risk perceptions derive from major filmed entertainment's ability to be the ultimate arbiter about the future of cinema. To be sure, this power is certainly not total. Nevertheless, capitalization and risk help explain why an orderly, predictable world of cinema is of interest to major filmed entertainment. It also seems that the formulaic and repetitive tendencies of Hollywood may not be accidental; if they were, so the argument would go, studios would simply need to attract more "creative" people. Rather, the repetitive, even cautious, quality of Hollywood's imagination indicates that the film *business* aims to keep creativity in the film industry within constructed limits.

Let us now move from the order of cinema to the mechanism of strategic sabotage. Risk perceptions permeate the strategic sabotage of cinema because, all along the line, a calculation about the expected earnings of cinema must work with, and sometimes in spite of, another

language: the language of art. More specifically, the Hollywood film business must determine how it will *strategically* sabotage the creativity of those who think cinema is primarily an art form. Such a characterization of social creativity is not meant to suggest that every artist or moviegoer participating in Hollywood cinema is critical of the creative limits imposed by business. Instead, the industrial art of filmmaking, with all of its aesthetic qualities, puts the Hollywood film business in a particular business-industry relationship, which cannot be ignored. The details, the specific ways and means of a particular business-industry relationship, depend on the *types* of industry being controlled by business.

The capacity for social creativity to go in different and unforeseen directions is always a potential threat to the aims of major filmed entertainment. Creativity is a wild animal and major filmed entertainment wants to harness it to develop, finance, produce and distribute the “right” set of films. In this sense, both “right” and “wrong” refer not to aesthetic standards but to earnings. Fundamental to capitalist investment is confidence that, if needed, firms are able to steer social creativity in new directions *but without losing control*.

In its own way, a 2003 article in *The Economist* recognized that the control of creativity was cause for concern in the Hollywood film business. The article characterized the business-industry struggle in Hollywood as that between “suits” (business) and “ponytails” (industry):

That the [film] industry tends over time to swing too far in favour of the ponytails, only to swerve back too far in favour of the suits, shows how hard it is to find a middle way. Devising a habitat in which creativity can flourish, yet within tight operational constraints: there lies a sequel for the entertainment industry worthy of a Hollywood blockbuster (Anon 2003).

Of course, there are historical examples of business dictating that creativity travel in one direction when it “should” take another path. For instance, the popularity of *The Sound of Music* (1965) was mistakenly taken as a sign that the major studios should say, “Yes!” to more musicals at a time when the political values and cultural attitudes in America were radically changing. To be sure, Hollywood would eventually embrace the 1960s student, civil rights and anti-Vietnam War movements with enthusiasm,⁷ but not before releasing a long string of unpopular musicals: *Camelot* (1967), *Doctor Dolittle* (1967), *Chitty Chitty Bang Bang* (1968),

⁷ For a thorough and stimulating examination of the decade when Hollywood embraced New Wave Cinema and the political ideals that inspired it, see (Kirshner 2012).

Hello, Dolly (1969), *Paint Your Wagon* (1969), *Star!* (1968), *Sweet Charity* (1969) and *Darling Lili* (1970). The financial failure of *Darling Lili* was particularly bitter: in an explicit attempt to re-exploit *The Sound of Music*, *Darling Lili* stars Julie Andrews, who plays a singing spy in World War I (Cook 2000, p.12).

Therefore, decisions about the form and content of Hollywood films are haunted by the specter of “aesthetic overproduction.” Two things about the concept of aesthetic overproduction should be immediately noted. First, the term “aesthetic overproduction” is my own tailoring of Veblen’s generic concept of “overproduction.” Overproduction, for Veblen, has a specific meaning, but only if we understand that this concept applies “not to the material, mechanical bearing of the situation, but to its pecuniary bearing” (Veblen 2006c, p.215). Overproduction does not mean that the material and intellectual capacities of a workforce are overtaxed, nor does it mean that a community is physically or mentally unable to consume what is in supply. Overproduction is a “question of prices and earnings;” it refers to a level or type of production that is inexpedient *purely* on “pecuniary grounds.” Aesthetic overproduction is itself a consequence of how the accounts of modern business enterprise “are kept in terms of the money unit, not in terms of livelihood, nor in terms of the serviceability of the goods, nor in terms of the mechanical efficiency of the industrial or commercial plant.” Thus, regardless of what a film project could mean in political terms, or regardless of the potential for cinema to be a domain for critical reason, film projects are “capitalized on the basis of their profit yielding capacity” (Veblen 2006c, p.85).

Second, aesthetic overproduction is only understood when film production is embedded in the larger circuit of film production, distribution and exhibition. Indeed, the business interests of Hollywood might glimpse the spectre of aesthetic overproduction well before a film is completed and then distributed. For instance, the brevity of Hollywood “pitch” meetings, which determine whether a film project will even get funds for production, is a pre-distribution barrier to any film project that cannot be sold in the high concept style (Elsbach & Kramer 2003; Wyatt 1994). Still, the conflict between business and art in the pitch meeting, or even on set, gestures to the potential uncertainty of film distribution. In a sense, the financial failures of

distribution go back up the line and define aesthetic overproduction. It is the financial failures of a distributed film that tell the Hollywood film business which aesthetic ideas are bad for earnings.

Because of the specter of aesthetic overproduction, major filmed entertainment has a real incentive to sustain a form of cinema that is conservative because it is repetitive and formulaic. Even if there is a technological/anthropological capacity for the art of filmmaking to go well beyond the “limits” that are imposed in Hollywood cinema, guideposts like the star system and film genre help keep everybody involved from veering too far off the well-beaten path. To be sure, these guideposts are not meant to suffocate all forms of artistic innovation. Rather, genre and the star system “save” filmmakers the trouble of yearning for, and then abandoning, unconventional filmmaking techniques that could jeopardize distribution with one of Hollywood’s dominant firms (Rosenbaum 2000).

Moreover, the repetitive nature of mass culture, of which Hollywood is a central part, is about more than ideology. Risk perceptions partly determine the level of capitalization, and would confidence about the size and pattern of expected earnings not increase if moviegoers had a predilection for only a narrow range of film types? The threat of aesthetic overproduction is a strong reason why there is, within the Hollywood business, a vested interest to “pre-sell” its films, to habituate moviegoers to want new films to have a familiar, pre-digested quality (Maltby 2003). It might also explain why independent filmmakers seem to take an oppositional stance against the sensibilities of the average audience. For an independent filmmaker to claim they make films “for only themselves” or “for nobody” could very well be symbolic resistance to all that is implied when Hollywood says it makes films to “please an audience”(Ortner 2013, pp.51–53).

Intra-capitalist Struggle: Major Filmed Entertainment versus Theater Owners

The concepts found in this paper can frame our empirical research on the Hollywood film business. Because our present concern is the character of film distribution in Hollywood, let

us use the concepts of risk and strategic sabotage to contextualize recent news of an intra-capitalist dispute over the distribution and theatrical exhibition of a Hollywood blockbuster.

In 2013 the *Los Angeles Times* reported a dispute between Disney and two major theatre owners, AMC Entertainment and Regal Entertainment. The dispute was over the theatrical release of *Iron Man 3* and how its theatrical revenues were going to be split between Disney, its distributor, and theater owners. According to the *Los Angeles Times*, studios “typically collect 50% to 55% of ticket sales, depending on the movie.” AMC and Regal were challenging Disney because, for *Iron Man 3*, “Disney was seeking an excessively large take of the box-office revenue—up to 65%” (Verrier 2013).

How might we understand this dispute? Having recently acquired Marvel Studios and Lucasfilm, Disney is in a position to benefit from the *future* of blockbuster cinema, should it continue as time goes on. Disney’s boldness about the distribution of *Iron Man 3* might also portend something more general: its degree of confidence about the future earnings of the Marvel superhero universe and its other franchises. Because the order of cinema is currently structured to give the top tier of films the majority of theatrical revenues (McMahon 2013; Weinstein 2005), the threat to withhold anticipated blockbusters from the community at large is a big one.

The power underpinnings of this dispute can also be seen if we take a historical view of the struggle between distribution and exhibition in contemporary Hollywood. Figure 4 compares two time series. The thick line measures the number of major filmed entertainment releases from 1975 to 2012. It is expressed as a percentage of the total number of films released in the United States per year. The dotted series measures, from 1975 to 2007, major filmed entertainment’s share of all U.S. box-office revenues per year. This series is an indirect measure of the struggle between major filmed entertainment and theater owners—there is a certain amount of theatrical revenues each year and it is by means of contract negotiation that a certain share goes to the dominant film distributors of Hollywood.

2007 is the last year data is available for major filmed entertainment’s box-office share. We can create a hypothetical extension of the series with the details of the *Iron Man 3* contract

dispute. 2013 on the dotted series is an 18% increase from the historical average of major filmed entertainment’s share of box-office revenues between 1975 and 2007. 18% is, according to what the *Los Angeles Times* reported, the low estimate of what Disney was attempting to increase its share by (from 55% to 65%).

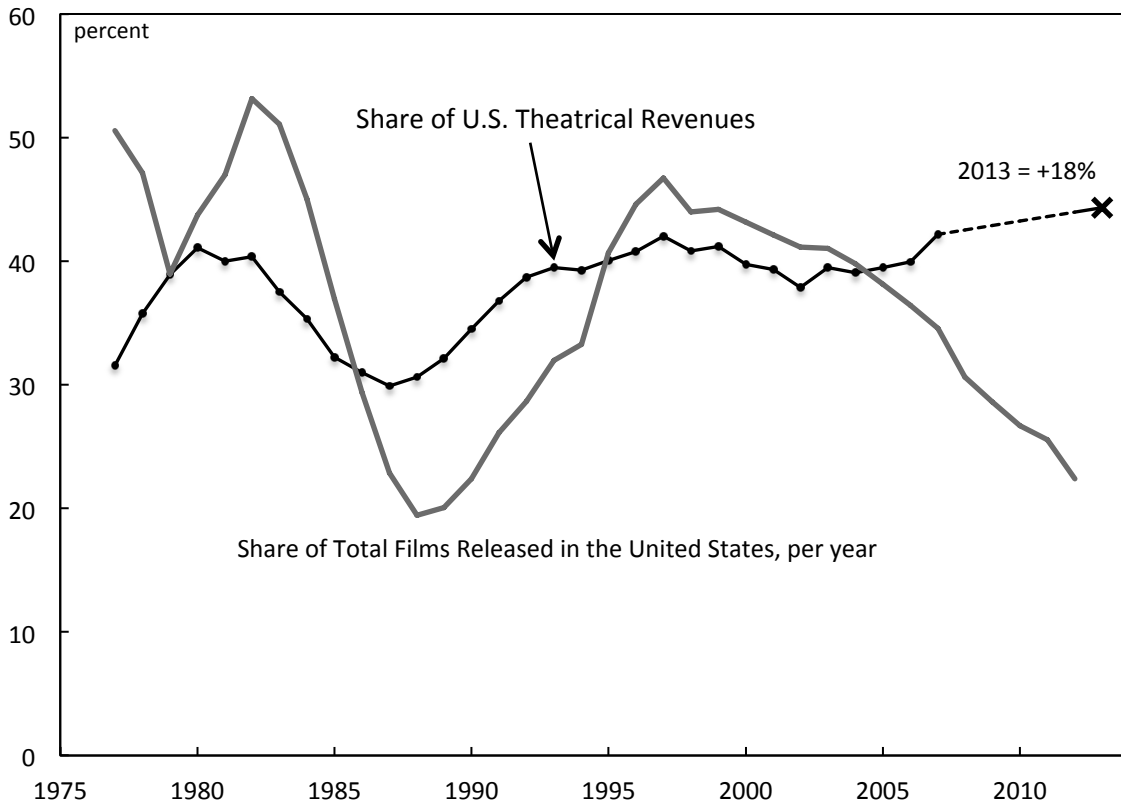


Figure 4 Major Filmed Entertainment’s Film Releases and Theatrical Revenues

Note: Both series are 3-year moving averages.

Sources: Joel W. Finler, *The Hollywood Story*, 3rd ed. (New York: Wallflower Press, 2003) 376-377, for total releases and MPAA releases from 1975-2002; MPAA Theatrical Market Statistics for total releases and MPAA releases from 2003-2012. Vogel, *Entertainment Industry Economics*, 88-89, for MPAA U.S. rentals % of box-office from 1975-2007.

The period from 2007 to 2013 is illuminating. Because of how major filmed entertainment’s share of theatrical revenues is likely increasing as its share of all film releases is decreasing, the rules of the game might be changing. For most of the time span in Figure 4,

from 1977 to 2006, there is a positive correlation (+0.72) between major filmed entertainment's share of total releases and its share of all theatrical revenues. This thirty-year span corroborates the research of Robert W. Crandall, who looked at the structure of Hollywood film distribution from 1948 to 1967. About this nineteen year period, which immediately followed the conclusion of the antitrust case against Paramount and the other major studios, Crandall recognized that the means of strategic sabotage "at the distributors' disposal" were still there and, in fact, "were quite straightforward—the control over the number of film releases per year" (Crandall 1975, p.62). By "controlling the only nonsubstitutable input in theatrical exhibition—the film itself—the distributors continued to exercise market power" over theatrical exhibition (Crandall 1975, p.62).

Major filmed entertainment's share of all films released in the United States is now declining to a level not seen since the late 1980s. However, unlike the 1980s, its share of all theatrical revenues might be approaching a historical high. Thus, in recent years, major filmed entertainment's share of theatrical revenues is no longer dependent on whether it dominates in quantitative terms, as a share of all film releases in the United States. Instead, the stable popularity of superhero franchises and other blockbusters might have created a situation where major filmed entertainment is free to worry less about the number of films that could possibly compete with mainstream Hollywood cinema. While few in number, the most popular blockbuster films lend their distributors a high degree of confidence about the social world of cinema. As the *Iron Man 3* dispute revealed, superhero franchises are of strategic importance; the social relations of Hollywood cinema currently orbit around the average moviegoer's love of a big franchise film. In other words, major filmed entertainment's strategy of controlling social creativity in filmmaking is currently producing the "right" set of films—"right" with respect to business, not art.

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