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Stars in Their Eyes? Cost of State Film Subsidies Soar, Along with Concern

After decades of taxpayer-funded “smokestack chasing”, many states are now trying to lure Hollywood film projects with big subsidies. In a remake of beggar-thy-neighbor competition, states in every region are matching and surpassing special tax breaks for the film industry. Meanwhile, as these tax giveaways become more common and so less effective, the actual economic and fiscal payoffs of this subsidy-driven competition remain in doubt.

Still, starry-eyed state officials have been rushing to launch new incentive programs to attract film productions, or extend or expand existing ones. The Michigan legislature [recently fast-tracked a package of film industry subsidies](#), including a fully refundable 42% tax credit for production costs for Governor Granholm’s signature. [New York recently tripled its film tax incentive](#) to compete against Connecticut and other neighboring states.

The necessity and efficacy of film industry subsidies has become a dogma for their proponents in state government and in the film industry. Seeking renewal of the Illinois Film Tax Credit (a 20% rebate on qualifying in-state expenditures), Governor Rod R. Blagojevich recently touted a [seven-fold increase of film industry spending](#) in the state from a low of \$23 million in 2003 to a record \$155 million in 2007, while claiming 26,000 film project jobs in 2006.

However, Blagojevich did not report the cost of the state’s subsidies to the film industry, the quality and duration of the jobs created, or the tax revenues generated by film projects.

In fact, the number of critics of state film incentives seems to be growing. [A 2006 analysis](#) by the Federal Reserve Bank of Minnesota concluded that while such incentives are indeed popular, “neither will you find much evidence that, as a strategy, incentives do anything better than break even at the public box office.” While noting that film industry incentives do seem to bring film projects to states that have few, a [Federal Reserve Bank of Boston study](#) noted that they are also costly, particularly since film production does not generate significant economic activity in other business sectors.

Meanwhile, the high cost of film tax credits is becoming clearer. Massachusetts’s new refundable tax credit, which even reimburses unprofitable film companies with no tax liability, is [expected to soon exceed \\$100 million annually](#). The chief economist of Louisiana’s state fiscal office describes the state’s film \$50 million-a-year film credit as a [“government subsidy program”](#) whose costs exceed its benefits, while Connecticut and Rhode Island are reportedly re-examining the real costs versus benefits of their film subsidy programs. Cities like San Francisco hurt by competition from other regions are trying to find [ways to support homegrown film producers](#). Perhaps these small steps towards rationality will eventually inspire other states and cities to restrain this particularly unprofitable interstate competition.

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