



Reply to Bradbury: Effects of Economic Incentives in the American Film Industry

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[LINK TO ABSTRACT](#)

Our 2018 study “Effects of Economic Incentives in the American Film Industry: An Ecological Approach” examined whether and to what degree state film incentives in the United States contributed to film production, industry specific employment, and the creation of new firms serving the motion picture industry. As we wrote: “The range and diversity of film incentive programmes present challenges for programme evaluation, and makes comparison across states particularly difficult. A longitudinal examination of the national industry helps to identify trends and determine what role ecological factors like dominance and diversity may play in the effectiveness of incentives promoting project-based industries” (O’Brien and Lane 2018, 868).

The crux of our findings that are relevant to this response is that the impact of incentives are relatively small for all dependent variables. We found that simply offering an incentive of any value has significant effects on outcomes, but that offering more money did not promote better outcomes, except for filming, the shortest-term gain and one which may not promote longer-term local economic development. This is important for policy makers, who may find that small incentives are just as effective as large ones in terms of promoting filming activity, employment in filmmaking, or the establishment of film-specific firms.

These results do not run “contrary” to academic consensus, nor do we quarrel with J. C. Bradbury’s claim that our paper “does not present itself as providing

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strong support for incentive programs” (Bradbury 2020, 57). Indeed, our paper recommends that states carefully reconsider and tailor their programs, paying closer attention to local diversity and ‘fly-in fly-out production.’

The measurement of incentives

The crux of Bradbury’s critique seems to be that he either disagrees with, or fails to understand, our use of legislative budgetary *allocation* rather than actual *spend* to operationalize incentives. Bradbury incorrectly and repeatedly states that our measure for incentives documents state *spending* on film incentives. As we discuss in the published manuscript in *Regional Studies*: “The size of an incentive is the allocation a state’s legislature earmarks for a programme, specified in the state budget. ... the variable *Incentives(millions)* reflects the US dollar amount a state committed to film incentive programmes per year (in millions)” (O’Brien and Lane 2018, 868).

In a rich and robust field of inquiry, it is commonplace as well as advantageous for researchers to work through different measurement possibilities. In Bradbury’s own words, “studies that present their data on film incentives often differ slightly from each other in their designations” (Bradbury 2020, 58).

In previous responses to Bradbury,³ we assumed this confusion between spend and allocation was a simple inattention to the definitional terms of our variable specification and made the clarification. However, by this, the third iteration of the critique, we can only infer that Bradbury understands perfectly well and yet chooses to persist in his error. Happily, Bradbury’s repetition of this false conflation does not change the facts.

The measurement of uncapped incentives

Distinguishing between allocation and spend goes most of the way toward addressing Bradbury’s second concern: our decision to value uncapped incentives at \$300 million. The highest incentive allocation in our dataset was \$274.9 million (offered by New Mexico in 2012).

3. Contrary to the claim that Bradbury publishes this commentary in order to “elicit a response” (Bradbury 2020, 58), we have addressed these concerns twice already: first in an exchange moderated informally through the editorial board of *Regional Studies*, where our article is published, and a second time through the formal peer-review process of a commentary strikingly similar to that published here (rejected by *Regional Studies* on the grounds that it was unconstructive and un-collegial, but nonetheless subsequently self-published on SSRN and again resurrected for *Econ Journal Watch*).

In terms of the ways incentives signal munificence, an *uncapped incentive* signals that there is no pre-set limit on incentives offered by the state. The message this sends to filmmakers is that uncapped incentives are theoretically larger and more attractive. However, as explained in the published work, we did not wish to *overestimate* the value of an uncapped incentive and so worked with film officials and producers to determine a reasonable estimate value.

An increase of ten percent over the highest allocation addresses the necessity of valuing uncapped incentives more highly than capped ones while applying appropriate constraint. Assuming a simple value for uncapped incentives is both necessary and appropriate, keeping in mind that here, as throughout the study, the incentive variable reflects a value on uncapped *allocation*, not *spend*.

The exclusion of Iowa

Bradbury describes the exclusion of data for the state of Iowa as “odd” and “unjustified” (Bradbury 2020, 62, 63). However, during data collection, Iowa was embroiled in an audit following reports of mismanagement and potential fraud within their incentive program. As a result of those investigations, it was not possible to verify the numbers we found with the state film and economic development office. We made the choice to exclude these data, which represent 2 cases, or 0.3 percent of the sample. Given our goal of understanding how incentives operate across the United States generally, excluding Iowa remains the appropriate choice.

The use of NAICS code 5121

Perhaps to distinguish it from the commentary rejected by *Regional Studies*, in this latest critique Bradbury raises a new claim that our use of NAICS code 5121 is incorrect. NAICS 5121 is an aggregate category which includes a number of subcategories pertaining to motion picture and video industries. Among these subcategories are Motion Picture and Video Production (512110), Motion Picture and Video Distribution (512120), Teleproduction and Other Postproduction Services (512191), and Other Motion Picture and Video Industries (film labs, libraries, and storage facilities).

All of these subcategories describe business concerns which are vital to our arguments about diversity. Briefly, an enduring film production community consists not only of producers, but also of the many below-the-line and behind-the-scenes firms which support production through the provision of goods and

services, as well as those working in postproduction capacities such as editing, titling, animation, effects, etc. For these reasons 5121 is the appropriate NAICS category.

It is correct that 5121 also includes exhibitors, namely Motion Picture Theaters (512131) and Drive-in Motion Picture Theaters (512132), and that these organizational types are not the targets of incentive legislation. This is an interesting and helpful point and something we will keep in mind as we continue our work.

In sum

Overall, it seems Bradbury would simply have liked it better if we had made different choices in conducting our study. We humbly suggest that this affords him excellent avenues for further research. In closing his commentary, Bradbury cautions against relying on our work “for evaluating film incentives as a policy tool” (Bradbury 2020, 63). Indeed, we concur that *any* study, ours included, be considered in the larger context of an expanding body of work which collectively builds knowledge and informs policy.

We wish the author of the commentary all the best in making his own contributions to the fascinating, complex, and expanding field of inquiry around motion picture tax incentives.

References

- Bradbury, John Charles.** 2020. Do Film Incentive Programs Promote Economic Activity? A Comment on O’Brien and Lane. *Econ Journal Watch* 17(1): 56–65. [Link](#)
- O’Brien, Nina F., and Christianne J. Lane.** 2018. Effects of Economic Incentives in the American Film Industry: An Ecological Approach. *Regional Studies* 52(6): 865–875.

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