Digitalization, Globalization, Regional Competition and the Future of the Media and Entertainment Industry in Southern California

Lear Center/Pacific Council on International Policy
Entertainment Goes Global Project

Gregory Treverton, Research Director
Michael Clough, Research Report Author

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USC ANNENBERG
The Norman Lear CENTER FOR ENTERTAINMENT
Exploring Implications of the Convergence of Entertainment, Commerce, and Society
The Norman Lear Center

Founded in January 2000, the Norman Lear Center is a multidisciplinary research and public policy center exploring implications of the convergence of entertainment, commerce and society. On campus, from its base in the USC Annenberg School for Communication, the Lear Center builds bridges between schools and disciplines whose faculty study aspects of entertainment, media and culture. Beyond campus, it bridges the gap between the entertainment industry and academia, and between them and the public. Through scholarship and research; through its fellows, conferences, public events and publications; and in its attempts to illuminate and repair the world, the Lear Center works to be at the forefront of discussion and practice in the field.

Entertainment Goes Global

The Norman Lear Center launched this venture in 1999 to explore the implications of the globalization of entertainment. Since then, the Lear Center has held roundtable discussions on the topic and received a grant from the Centers for Disease Control and Prevention (CDC) to research the health effects of American entertainment abroad. Martin Kaplan, director of the Lear Center, moderated a high-powered Writers Guild of America panel called, "We Hate You, (But Please Send Us More Baywatch): The Impact of American Entertainment on the World." In May 2004, the Lear Center took the debate to the Tribeca Film Festival.

The Pacific Council on International Policy

The Pacific Council, founded in 1995 as an independent, non-partisan, membership organization headquartered on the campus of the University of Southern California in Los Angeles, is the western partner of the Council on Foreign Relations (New York). Its mission is to promote better understanding and more effective action, by private and public sector leaders from the western United States and around the Pacific Rim, in addressing a rapidly changing world. The Council emphasizes the connection between global and local developments as national borders become more porous, traditional concepts of "public" and "private" blur, and what constitutes "policy" itself is changing.
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Forward

With the publication of this paper by Michael Clough, the Pacific Council inaugurates a new series of papers, Engaging Americans in a Globalizing World. The series, sponsored by the Ford Foundation, will disseminate provocative arguments about relevant international issues and trends. This first paper, published with support from the University of Southern California “Southern California in the World” project, asks: What do the stunning changes in the entertainment industry — the globalization of its companies and the digitization of its content — mean for Southern California? This question is central to the Entertainment Goes Global project, co-sponsored by the Pacific Council and The Norman Lear Center. Clough’s paper, exploring how a Southern California industry interacts with the global economy, is a good example of what the series will do — articulate a distinctive vision and framework for how Americans engage in a changed world. The papers in the series will constitute a rich set of examples of the implications of globalization in the specific setting of the Pacific Rim and the North American west. Along the way, the papers will reach for more general propositions about how to conceive of policy in such a changed world. In the world defined by a global economy, national borders are porous, as economic exchange, communication and people flows remove the old distinction between “foreign” and “domestic.” The role of the state is changing and the role of private actors is transforming. “Policy” itself can no longer be defined by what happens in Washington, D.C., or Sacramento, but results from overlapping actions of both public and actors. The need for a new framework runs to basic language and concepts, and the title of the series reflects that fact. The “Americans” in the title are plural, not singular. If there is a national interest, it needs to be redefined in a way that includes new voices. It also reflects the reality that, for most issues most of the time, policy itself will be more than a single approach articulated by the U.S. government. It will be the amalgam of actions by governments and a host of private companies, NGOs and individual citizens.

“Globalizing” connotes the primacy of communications and economics in the world around us, and it also indicates that the process is continuing. Indeed, the process is uneven across the globe, with many poor countries so far untouched. Finally, the language of “engaging” is meant to
imply that the task, also a very dynamic one, is to seek ways that Americans can understand and then shape that process. I thank Michael Clough for inaugurating this series. His research was originally done as part of the Pacific Council’s project Making the Most of Southern California’s International Connections, and we appreciate the support of the John Randolph and Dora Haynes Foundation for making that project possible. The publication was supported by USC’s Southern California in the World program, to which we are grateful as well. I look forward to working with future authors in the series, and I would welcome comments of all sorts from readers. I can be reached at trevero@usc.edu.

Gregory F. Treverton
Pacific Council on International Studies
Acting President and Director of Studies
May 2000
Introduction

Southern California has long imagined itself as a region with a grand (and global) destiny. “Here,” Carey McWilliams predicted over fifty years ago, “America will build its great city of the Pacific, the most fantastic city in the world.”¹ In the mid-1990s, following The Walt Disney Company’s historic acquisition of Capital Cities/ABC, many regional boosters believed that McWilliams’ prophecy was about to be realized. “With the help of Disney and Warners,” writer Joel Kotkin argued, “Burbank now stands to be the media capital of the world. That same opportunity now exists for the region as a whole. With the demise of the traditional networks, Los Angeles enjoys an unprecedented chance to follow Mickey Mouse into the conquest of world markets.”² This optimism peaked in early 1998 when the Los Angeles Times ran a high profile series declaring “In Local Economy, Hollywood Is Star”³ and The New Yorker published a special “California Issue” that emphasized the role of Hollywood in the state’s economic “comeback.”⁴

Today, as the new digital-global epoch is beginning to unfold, the future of the regional economy is uncertain. Worrying signs have included reports about “runaway film production,”⁵ murmuring that Disney was failing to capitalize on its acquisitions and emerge as a dominant force on the Internet,⁶ and the collapse of Dreamworks SKG’s plans to build “the digital studio of the future” at Playa Vista.⁷ Then, in March 2000 came the announcement that the Los Angeles Times, which has led the effort to boost the region’s role as the mega-center of an emerging cultural industrial complex, was being sold to the Chicago-based Tribune Company. Reacting to this unexpected blow, one L.A. writer warned, “We are a city adrift, and our fate is less in our own hands than it has ever been.”⁸

Whether the Southland, which stretches from Ventura to southern Orange County and extends
inland to San Bernadino, will regain the momentum and optimism that existed two short years ago, or end up looking back on the year 2000 and the sale of the Los Angeles Times as the moment that the boosters’ dream finally died, will depend in large part on the region’s ability to protect its position as the premier filmed entertainment production cluster in the world — and on its ability to compete with New York City, the Bay Area, and other major metropolitan regions for a place at the center of the new economy. The Southland’s place in the new order will ultimately depend on its ability to use its comparative advantages in creating popular entertainment and the rich cultural diversity of its population to build a knowledge-based, globally connected, high-tech regional economy.

This report examines the challenges and opportunities that are being created for Southern California by two revolutions:

- Globalization, which is changing the character of (and connections between) America and the world and widening and altering the market horizons of the newly converging media industry.
- Digitization, which is changing the ways in which content-news, information, and filmed entertainment is produced and distributed and causing previously distinct segments of the media and entertainment industry to converge into a single medium.

It argues that, although their earlier optimism was premature, Kotkin and other regional boosters are right that the Southland’s place in the new order will ultimately depend on its ability to use its comparative advantages in creating popular entertainment and the rich cultural diversity of its population to build a knowledge-based, globally connected, high-tech regional economy. This paper is divided into five parts.

- **Part One** briefly describes the emergence of the Hollywood filmed entertainment cluster.
- **Part Two** focuses on globalization. It includes two sections. The first section examines the ways in which the market for filmed entertainment is being globalized. The second section analyzes the debate over so-called “runaway production.”
- **Part Three** focuses on digitization and the changing structure of the media and entertainment
industry. It includes two sections. The first section provides a brief survey of the changes in the media and entertainment industry that are being caused by the mergers that are being prompted by technological, marketing and other “convergences” in the media and entertainment industry. These “mergers of convergence” have broken down the walls separating the old media sectors — e.g. broadcasting and publishing. The second section focuses specifically on the impact of digitization on filmed entertainment.

• Part Four places recent changes in the structure of the media and entertainment industry in the context of a broader competition among metropolitan regions for leadership of the new digital-global economy.

• Finally, Part Five emphasizes the need for regional leadership to develop a strategy to preserve and promote Southern California’s preeminent position in the filmed entertainment industry and help it to become one of the world’s dominant new media centers. And it suggests three elements that should be a part of such an effort.
Part One: The Hollywood Cluster

The fortunes of Southern California and the Hollywood filmed entertainment cluster have been intertwined ever since D.W. Griffith encamped there at the beginning of the Century and began to make movies. In the 1920s and 1930s, the motion picture industry was the region’s most important industry. As World War Two began, however, it was quickly eclipsed by aerospace and, by the late 1960s, its weight had declined to the point that it did not even merit a mention in the State of California’s annual economic reports. This situation changed dramatically in the late 1980s and early 1990s. As a result of the end of the Cold War, the aerospace industry went into decline and the motion picture industry began to be restructured and revitalized.\(^9\)

A new optimism developed in the mid-1990s largely because the emergence of what film industry historian Thomas Schatz has called “the new Hollywood studio system”\(^10\) seemed to strengthen Southern California’s position in the media and entertainment industry, while at the same time, making filmed entertainment a much more valuable product. By the late 1990s, however, the region’s prospects have grown more uncertain. To assess the future of the region, it is important to understand the history of the Hollywood filmed entertainment industry cluster.

Over the past decade, scholars working mostly in regional planning, economics, and geography have firmly established that place — the physical location where people interact, corporations do business, and governments govern — matters even in a global economy.\(^11\) Their work has made it clear that there are reasons why particular activities and industries tend to develop and cluster in some places rather than others — and why the resulting industry “clusters” help to strengthen the ability of regions to compete in the global economy. Those reasons include helping to increase the productivity of companies in the cluster; helping to reinforce an area’s position as a center of innovation in the industry; and fostering their own expansion by spawning new businesses.\(^12\) The filmed entertainment industry in Hollywood is a textbook example of an industry cluster.
The reasons why the motion picture industry originally came to Hollywood are still a matter of some dispute. One explanation, only partially apocryphal, is that the independent producers who built Hollywood wanted to get as far away from the legal reach of the Edison Trust’s patent lawyers as possible, and chose Southern California because they could always make a quick dash across the border into Mexico. More important considerations were that the region’s climate and settings made it possible to film many different movies on a year-round basis; and that because Los Angeles was a non-unionized city, wages, and hence production costs were much lower than in the East (or in San Francisco). But the industry survived and thrived in Southern California largely because of the self-reinforcing quality of economic clusters. The early concentration of motion picture production in the region made it a magnet for the actors, directors, writers, and technicians who made the movies; the lawyers and businessmen who handled their contracts and managed the studios’ business affairs; and the network of entrepreneurs and workers who specialized in meeting the demand for ancillary goods and services the industry created. Once this cluster was in place, it became self-perpetuating. The fact that just about everybody, every service, and every thing that a producer needed to make a movie could be found easily in Southern California created a strong incentive for producers to make pictures there. Conversely, the economic and non-economic costs of creating an equivalent film production cluster elsewhere were too high for them to consider it. Moreover, the region as a whole began to develop an institutional infrastructure to support and sustain the motion picture industry. Particularly important in this respect was the emergence of film training programs such as those at the University of Southern California, UCLA, the American Film Institute, and Santa Monica Community College; and the development of industry groups such as the Academy of Motion Pictures Arts and Sciences, the Motion Picture Association of America, the American Film Marketing Association, and the Directors, Writers, and Producers Guilds.

The collapse of the old studio system’s assembly-line model and the shift to a new “flexible production” model in the early years of the post-World-War-Two era made it even more difficult to create a rival cluster. In addition to the costs of duplicating the sound stages and other
production facilities that the studios had built, doing so in an age of flexible production would require simultaneous moves by a vast number of independent sub-contractors rather than a decision by a single studio.13 These considerations almost certainly played a major role in the mid-1950s decision of the three original television networks to rely on Hollywood for a steady supply of filmed entertainment rather than to create their own film studios in New York.

Over the long run, the most important determinant of the ability of Southern California to retain its leadership of the filmed entertainment industry will be whether the Hollywood cluster can adapt to globalization, digitization, and the consequent restructuring of the media and entertainment industry as a whole.
Part Two: Hollywood Goes Global

Section One: The New Global Market for Filmed Entertainment

Globalization — the process resulting from the progressive erosion of national and other limits on the worldwide flow of people, ideas, images, information, organisms, capital, and goods — is radically transforming America and the world.\textsuperscript{14} It is creating new connections and relationships between places, groups, markets, and institutions. It is shattering old identities, cultures, interests, and tastes — and forging new ones. It is generating new economic, environmental, social, and political threats — but, in all of these areas, it is also creating new possibilities. Like the earlier revolution of nationalization that reshaped America in the 19th and 20th Centuries, the revolution of globalization is far-reaching and inexorable.\textsuperscript{15} And, as was the case in that earlier revolution, the media and entertainment industry is fated to play a critical role in pushing it forward and determining its consequences.

The Market Rules

When the Sony Corporation purchased Columbia Pictures and the Matsushita Electric Industry Company of Japan bought Universal Pictures in the late 1980s, it caused a flurry of warnings about the potential danger of a foreign takeover of the American film industry.\textsuperscript{16} This worry was part of a broader American fear that “Japan Inc.” was on the verge of buying up America. Today, however, it is clear that this threat was greatly exaggerated. One reason these concerns have faded is that the global clout of Japan has been reduced by the economic and political woes it has experienced over the past decade (and by the tremendous surge in economic growth in the United States). But, in the case of entertainment, it is also now clear that foreign ownership has not caused any basic changes in the economic character of the industry.\textsuperscript{*} One indicator of the extent to which fears about foreign ownership of Hollywood studios has declined is the lack of a strong reaction to the recent acquisition of Universal Studios by French conglomerate Vivendi S.A.

The globalization of the media and entertainment industry is being driven by changes in the market, not changes in ownership.\textsuperscript{17} Over the past two decades, revolutions in transport and
communications, and the growing privatization and deregulation of the media industry around the world have created markets for filmed entertainment far larger than ever before imaginable. This process has been greatly accelerated by digitization (which is analyzed in Part Three, Section Two). In the words of Time Warner President Richard Parsons, digitization — the ability to take voice, video and/or text, reduce it to electronic impulses, send it via wire or satellite to a distant location, then reconstruct it perfectly at the terminus point — “…will … completely eviscerate the concept of distance as a limiting factor in defining your marketplace. So, in terms of our business — which is really creating, packaging and selling words and images that can then be electronically transmitted — the world has become one, big market. Once you tell me that, then as a businessman I’m going to attempt to market my products throughout my entire marketplace.”

In short, regardless of where they are headquartered, global media and entertainment companies have one objective: to distribute the digital content that they create and control to the largest possible market. The result, however, is not simply a single enormous undifferentiated global market.

Over the past decade, the relative importance of domestic revenues and overseas revenues changed. For example, in the 1990s all of the top ten worldwide box office hits earned more overseas than in the United States. In fact, only two of the top twenty-five movies — Home Alone and Mrs. Doubtfire — did not earn more overseas than at home. In contrast, in the 1980s only three movies in the top ten — Indiana Jones, Rain Man and Who Framed Roger Rabbit? — earned more overseas than at home. The same trend is developing in the case of filmed entertainment produced for television. At the most recent annual meeting of the NATPE (National Association of Television Programming Executives), one entertainment industry official noted that whereas “just a few years ago...international distributors...were ghettoized into a small pavilion area,” in January 2000 the convention floor was “transformed into a true global exhibition.”

* The new corporate and foreign ownership of the global media and entertainment industry does raise some very important political issues. But these issues are beyond the scope of this paper.
But these trends actually understate the extent to which the market for filmed entertainment has been globalized. The reason is that at the same time that Hollywood has been earning greater revenues overseas, the character of the domestic market for filmed entertainment in the United States has also become more globalized.

The forces behind the globalization of the domestic market are two-fold. First, as the majority of Americans have become better educated, more widely traveled, and, largely as a result of the media, more exposed to other cultures, their tastes have become more cosmopolitan. But, even more importantly, as a result of immigration, the foreign-born share of the population in the United States has increased dramatically.

The impact of these two trends has been accentuated by the growing emphasis on ethnic roots that has been fostered by many communities and schools. This has caused many nonimmigrants to discover and embrace their ties with other parts of the world. Therefore, even if entertainment producers were only concerned about serving the American market, they would now have a much greater incentive to produce globally oriented content.

**The Two Global Markets**

For these reasons, it is best to think of the new market for filmed entertainment as consisting of two separate components. The biggest prize is the part of the market that is truly global. This is the segment that creates billion-dollar blockbusters such as Titanic and Star Wars. In seeking to capture this market, the entertainment industry has an interest in emphasizing characters and universal themes that have resonance in all cultures and can be easily translated into many languages. This has, in fact, always been a large part of Hollywood’s formula for success. But the difference is that in the past, producers had far fewer reasons to think or worry about how their choice of actors or use of settings might affect their ability to reach the audience. They simply focused on trying to discern which movies would get middle-class America to the box office, confident that if they could succeed in doing that, they would have a financial success. Today, a film with a blockbuster budget that only succeeded in attracting traditional middle-class Americans would be a huge financial disaster.
The other part of the global market is best described as transnational but not global. It consists of audiences that reside in different regions and countries but share a common identity, language, or affinity. Examples include those based on ethnic and racial ties — e.g., Latinos in Latin America, Spain, and the United States — and those based on identification with particular subcultures, such as hip hop.

In a world of converging media, the potential value of tapping into these transnational subsets of the new global market is much greater than before. In the past, the profits from producing a movie with appeal to a Latino audience were mostly limited to box office receipts. Today, a movie aimed at a Latino audience can be used to promote sales of related content, including music, videos, and licensed merchandise; to cross-promote other films and content aimed at a Latino audience; and to attract Latino consumers to Web sites that can serve as e-commerce platforms for a wide array of goods and services.24

**The Future**

In the coming decade, the media industry is certain to become even more globalized for three reasons. First, as population and per capita wealth in places such as China continue to increase rapidly, the pull of the global market will become even more irresistible. Second, as television spreads throughout the world and Internet penetration rates in other parts of the world begin to catch up to those in the United States, the ability of the new mega-media giants to reach global audiences and engage them in e-commerce will greatly increase. Finally, barring a major and unlikely reversal of trends toward privatization and deregulation, national barriers to the export of media and entertainment products and services will continue to disappear.

**Section Two: Runaway Production**

For nearly a century, despite periodic concerns about the possibility of competition from other metropolitan regions in the United States and the world, Southern California has maintained its dominant position in the filmed entertainment industry. For example, in 1997 Southern California earned $24.5 billion from the production of motion pictures and videos, which represented nearly
55% of the total receipts earned in the United States. Nevertheless, in 1999, when film production in Hollywood seemed to slow and many workers in the industry began to have difficulties finding work, regional leaders began to warn about the dangers of “runaway production.” They focused in particular on the threat posed by Canada.

Understanding the Threat

Last year, a study by the Monitor Company jointly commissioned by the Directors Guild of America and the Screen Actors Guild, found that in 1998 the United States lost 285 “runaway productions” for economic reasons, 232 of which ended up being produced in Canada. Most of the debate over runaway production has centered on cost considerations, including the economic subsidies and incentives offered to film producers by non-U.S. film producing countries; the strong U.S. dollar, which has made it cheaper to film on location and in studios in weak-currency countries such as Canada; and the differential in labor costs between Hollywood and low-wage, foreign locales. According to the Monitor Company study, the savings gained from producing in Canada rather than the United States can be as high as 26% of the total cost of production. But it also warned that runaway production could become self-reinforcing by helping to develop the cluster infrastructure necessary for places such as Vancouver and Toronto to attract even more production later.

Hollywood should take the problem of runaway production seriously. But it is important to be realistic about the nature of the problem and the options available for dealing with it. There is very little sympathy in Canada and other film-producing countries for Southern Californian fears of film flight. The main reason is that, runaway production notwithstanding, the United States still dominates the international film and television market — and is likely to continue to do so for some time. For example, in August 1999 the Irish Film Industry Strategic Review Group reported on the situation in Europe: U.S. films command some 80% of world market share in theatrical film and some 70% market share in television fiction.... American producers dominate European distribution and screen exhibition and their European sales are incremental to the more profitable U.S. market, where their dominance is more complete. In spite of signs of revival and some recent successes, Europe has failed to develop products with the same international audience appeal as
the U.S. product. This has led to a situation whereby Europe, potentially the largest and most complex market in the world, is controlled by another market.\textsuperscript{31}

In addition, while foreign productions may have reduced the total share of films and television shows shot in Hollywood, the absolute levels of production there have increased substantially over the past decade. For example, according to the Monitor study, the number of U.S. domestic productions increased from 507 in 1990 to 676 in 1998.\textsuperscript{32} Moreover, according to the Entertainment Industry Development Corporation, the number of film production days in Los Angeles (which includes commercials as well as theatrical films and television shows) increased from 26,640 in 1993 to 46,410 in 1999.\textsuperscript{33} This suggests that the situation is not a zero-sum game. If, as foreign production increases, the global demand for filmed entertainment also increases, Hollywood could prosper even if its overall share of world production decreases. This makes it very important for regional policymakers to have a clear understanding of the forces behind runaway production.

As the global market for filmed entertainment (and digital content, more generally) grows, foreign production will inevitably increase. This is true for several reasons. The tremendous growth of the market has greatly increased the economic gains to be made from developing a competitive filmed entertainment cluster; and the transport/communications revolution has made it easier for film producers to work in locations outside of Hollywood. In addition, globalization has had the paradoxical effect of heightening fears that local cultures will be “Americanized.” This has given new impetus to efforts by France, Canada, and other countries to protect indigenous “cultural industries.” Most importantly, as discussed above, as the importance of the non-U.S. market has grown, producers are now much more concerned about making sure that their product will sell as well in the global market as it does in the domestic market. To do that they need to be close to the market, both to better understand local audience tastes and to ensure that the stories, actors, and settings they choose have the greatest possible local appeal. These considerations are becoming even more important because of the growing relative importance of the foreign television market.
Despite the worldwide popularity of such distinctly American programs as Dallas and Baywatch, foreign television viewers tend to prefer local fare. Moreover, the interest of other countries in preserving the local character of their television programming is much greater than their interest in de-Americanizing movies. Finally, because of the size of the budgets, cost considerations tend to be especially important in determining where television films are produced. For these reasons, the incentives for Hollywood studios to expand television production in other countries (either by engaging in co-production with foreign companies or building additional facilities abroad) are generally greater than the incentives for them to expand film production in other countries — and they are certain to increase.

**Responding Effectively**

Whether or not Southern California’s interest will be hurt by the growth of foreign film production will depend much less on what the region does to prevent “runaway production” than on what it does to attract some of the new business that will be created by globalization, and to solidify its comparative advantages in the pre- and post-production phases of the filmmaking process.

One of the barriers to developing effective regional strategies is the assumption that the filmed entertainment market can be divided into domestic and foreign segments. This assumption underlies the mistaken belief that Southern California’s interests lie mainly in protecting the Hollywood cluster’s ability to produce films and shows for the U.S. domestic market. In the Monitor Group study, the authors defined “runaway productions” as ones that “are developed and are intended for initial release/exhibition or television broadcast in the U.S.” but are produced in foreign countries. There are several problems with this definition. It fails to take into account the fact that, even if Americans aren’t the primary audience for a film, because of the global reach of U.S. media outlets, there are still powerful marketing reasons to release a film in the United States first. In addition, it fails to recognize the growing importance of the transnational segments of the global market identified above. Segments such as the worldwide Latino audience cannot be usefully broken down into domestic and foreign components. Finally, it implicitly assumes that the norm is for filmed entertainment to be developed and produced in the same country or region. Operating on these assumptions could end up limiting Southern California’s ability to gain from
the overall growth of global and transnational markets.

Under any circumstances, Hollywood is likely to remain a major filmed entertainment production center for the indefinite future. This is true because of its comparative advantages in workforce size and skills and production infrastructure; and because of the fact that it is home to so many of the industry’s leading producers, directors, and actors. One indicator of the power of these kinds of factors to override cost considerations was the decision by the producers of the popular television series, The X-Files, to move production to Hollywood from British Columbia in order to allow star David Duchovny to be closer to home. It is, therefore, important, not to exaggerate the threat to Hollywood from runaway production. Moreover, the comparative advantages of the Hollywood cluster in the pre-production/development and post-production phases of the industry are actually greater than its comparative advantages in the production (filming) phases. The importance of distinguishing between comparative advantages in production and post-production was pointed out by UCLA regional planner Michael Storper over a decade ago. In the future, however, the region’s advantages in the pre-production phase may become just as important.

The key aspects of the pre-production process are creating story ideas, developing scripts, recruiting creative talent, and acquiring financing. Because of the convergences caused by digitization (see below), the globalization of the market for filmed entertainment, and the global dispersion of production, these functions are becoming both more important and more complex.

For example, producing a film for the Spanish language market now involves understanding audience sensitivities, production outlets, and potential marketing synergies in Spain, Latin America, and the United States. Southern California, with its combination of unrivaled experience in pre-production and its diverse and globally connected ethnic population, is ideally positioned to dominate this part of the industry in the new digital-global era.

For these reasons, the runaway production debate needs to be recast. Instead of focusing narrowly on efforts to change the economic equation that makes it more profitable to film some productions in places such as Canada and Australia, Southern California needs to pay more
attention to preserving and enhancing its existing advantages in the pre- and post-phases of the filmed entertainment production process. In this regard, the region’s general, long-term interests might, paradoxically, be served best by accepting that some production will run away and by working, instead, to ensure that other regions do not have strong incentives to strengthen their own pre-production/development capabilities. Ultimately, however, the most serious threat to the Hollywood cluster is likely to be posed by digitization and the restructuring of the broader media and entertainment industry, not runaway production.
Part Three: Digitization and the New Structure of the Entertainment and Media Industry

Section One: Mergers of Convergence

Technological change has always been the principal force shaping the evolution of the media and entertainment industry. The cycle through which this occurs has become a familiar one. An invention creates new ways to produce and distribute ideas, images, and information. Then entrepreneurs use the new capabilities to reach existing audiences and markets and create larger ones, often by embracing and promoting new expanded ideas of community. In this way, Johannes Gutenberg’s invention of the printing press in the mid-15th Century, which made it possible to publish large numbers of printed books, spawned the “print-capitalists,” who pushed both the Protestant Reformation and the rise of written national vernacular languages in order to create more profitable markets for their products. The same dynamic occurred following the invention of the telegraph, moving pictures, the radio, the television, and, most recently, the Internet. But the Internet or digital revolution is dramatically different from earlier communications revolutions.

Each of the past revolutions in communications technology created distinct media forms that evolved into their own industries. As new industries emerged, they competed with preexisting industries for audiences and advertising revenues. Sometimes, as in the case of the film industry and television in the 1950s, they became collaborators. But, even when ownership overlapped, newspapers, magazines, radio, television, and movies remained largely separate businesses with their own distinctive markets, and cultures. Over the past two decades, however, the entire media and entertainment industry has been transformed.

Two waves of what are best described as “mergers of convergence” (one of which is still just beginning to break) are merging the old separate and distinct sectors of the industry. A new mega-industry is being forged. Increasingly integrated companies now create multimedia content
that can be distributed and cross-promoted to all kinds of audiences, broad and narrow, on platforms — televisions, personal computers, video game players, etc. — that are becoming functionally indistinct.

The First Wave
The first wave of mergers of convergence occurred in the period stretching from 1984 to 1995. During these years, the walls separating broadcasting, publishing, and moviemaking came down. One of the most important aspects of this change was the emergence of what Thomas Schatz has called “the new Hollywood studio system.” In this new system, the studios are part of “an increasingly diversified, globalized ‘entertainment industry’” that is “geared to produce not simply films but ‘franchises,’ blockbuster-scale hits which can be systematically reproduced in a range of media forms” including movie sequels and TV series, music videos and soundtrack albums, video games, and theme park rides, graphic novels, and comic books, and an endless array of licensed tie-ins and brand-name consumer products.”

By the end of this first wave, in addition to being the film capital of the world, Southern California had become the headquarters of one of the world’s two most influential integrated media companies (the Walt Disney Company); and a major center of operations for three of the world’s most important non-American media companies (Australia’s News Corporation, Japan’s Sony Corporation and Canada’s Seagram Corporation). But, even before the first wave was over, a second (and potentially far more powerful) wave was beginning to swell.

The Second Wave
Whereas the first wave was driven largely by marketing synergies, the second wave is being driven by digitization — the conversion of images, sound, and text into a stream of machine-readable bits — and the rapid growth of the Internet. Together, they are creating four different kinds of convergence:

• Converging Content
The translation of written articles, pictures, music, and video into digital formats makes it possible
to “repurpose” them quickly and easily for use in different media. Thus, an article written for a newspaper or a television news video can quickly be turned into a digital document that can be uploaded onto a Web site on the Internet. Similarly, a live televised speech can, almost instantaneously, be turned into a text that can be posted on the Internet and printed in a newspaper. As the new digital art form evolves, more and more content will be created in multimedia forms that can be disaggregated and repackaged depending on the desires, needs, and technological capabilities of distributors and consumers. This transformation is obliterating traditional professional distinctions such as those between “print” and “broadcast” journalists. One of the best illustrations of this is the way that Time Warner has used its acquisition of CNN to create a series of television shows and Web sites that feature stories and reporters from its leading magazines such as Time, Sports Illustrated, Entertainment Weekly, Fortune, and People.

• Converging Pipes
The translation of content into digital form is also eliminating differences between the different broadband “pipes” that transmit entertainment and information to consumers. Once a product is digitized it can be transmitted over the air by satellites and cellular networks, sent through hard wires supplied by either phone companies or cable providers, or saved on a CD, DVD, or on other portable memory devices. This is radically changing the environment in which both the companies that produce content and those that transmit content must operate. The proliferation of sources of content and transmission options has greatly increased the options available to both sides in this equation, but it has also greatly intensified the pressures on them. In order to reduce uncertainty, content producers have an interest in gaining assured access to the “pipes” that can give them the fastest and most direct access to their audience; and the “pipe companies” have an interest in ensuring that they have a steady supply of the content that their customers want. As a result, phone companies such as AT&T are becoming media companies, and entertainment and information producers such as Disney are beginning to link up with “pipe” companies such as satellite broadcaster DirectTV.

• Converging Platforms
Digitization is also changing the ways in which consumers and users access entertainment and
information. Television sets, personal computers, video game players, and telephones are competing with each other to become the preferred platform for digital content. In this regard, Sony Corporation, which now manufactures a larger and wider range of digital receivers than any other company, has become a 21st century, digital analogue of the Radio Corporation of America (RCA), a radio manufacturer that played an instrumental role in creating NBC, the first radio broadcasting network. Sony’s interest in helping to create digital content is based on its desire to expand its sales of digital receivers. As the Internet revolution accelerates, companies such as the computer giants, Dell and Gateway, are likely to see themselves forced to join the media game in order to avoid having their products become the equivalents of black-and-white televisions in the age of color.

**Converging Commerce**

The digital revolution is also causing a fundamental shift in the role of the media in commerce. The Internet now makes it possible for companies to target consumers much more directly than ever before. (In fact, the ability of companies to use the Internet to gather data about individual consumer preferences and buying habits is certain to be one of the major public policy issues of the coming decade.) In addition, the Internet is becoming an extremely convenient and highly efficient way for consumers to shop for and purchase goods and services. In both of these ways, e-commerce is eroding many of the old boundaries between media companies and retailers.

For example, CBS no longer has to be satisfied to earn revenues indirectly by selling advertising to Sears and K-Mart, it can become Sears and K-M art. Conversely, in order to protect their profits, companies such as Sears and K-M art could find themselves under pressure to develop the kinds of content-rich Web sites that will be required to attract consumers in the Internet Age.

**The Future**

Recent examples of the industry restructuring caused by these convergences are the pending merger of America Online (AOL) and Time Warner, the acquisition of The Times Mirror Company by the Tribune Company, AT&T’s acquisitions of cable giant TCI and Internet leader Excite@Home and its pending acquisition of cable provider Media One, the merge of Viacom and
CBS, and the acquisition of the Seagram Company by Vivendi S.A., a French water utility turned telecommunications and entertainment conglomerate. If approved by the FCC, the new AOL Time Warner will be a global media behemoth. No other company is currently in a position to match its ability to produce a wide range of different kinds of content, ensure an audience for that content, and market goods and services to that audience on a global scale. Similarly, by purchasing the Times Mirror Company, the Tribune Company now owns a major newspaper, a television station, and a regionally oriented Web site in the three largest metropolitan regions in the United States — New York, Los Angeles, and Chicago. It has made it clear that it intends to use these resources to establish itself as a premier local content provider and e-commerce platform. By acquiring TCI, Excite@Home and Media One, AT&T has positioned itself to be a dominant player in the broadband era. Acquiring Universal Studios in the deal with Seagram will mean that Vivendi chief executive Jean-Marie Messier controls a global media empire second only to AOL Time Warner in scope and size.

Together, these mergers will place tremendous pressure on other companies in the communications, media, and retailing industries to refashion themselves to compete in the new economy. And, as evidenced by the May 17, 2000, announcement that Spanish telecommunications giant Terra is acquiring Lycos, the Internet portal, the competition for control of the new media industry is going to be truly global. The end result is almost certain to be a world of huge vertically integrated companies all competing for a share of the rapidly growing global market for entertainment and information.

Section Two: The Impact of Digitization on Hollywood

Digitization is changing all phases of the process of making and distributing films. Some of the changes will reinforce Hollywood’s comparative advantages, but others will threaten them. Some examples of the most important of these changes include:

• Advances in digital graphics are turning computers into virtual studios that allow digital artists and editors to create entire scenes and characters such as the pod race and Jar Jar Binks in Star Wars: Episode One, reducing the need to film live actors on location or in studios.
• The use of digital cameras and the growth in the bandwidth available to transmit video instantaneously is making it much easier for directors, editors, and their collaborators to collaborate even while being thousands of miles apart.

• The development of digital projection capabilities means that it will soon no longer be necessary to print and distribute physical copies of films. Instead, they will be digitally transmitted to theatres, television stations, or even individual computers via satellites, cable, or broadband phone lines.\(^5\)

Digitization will benefit Hollywood by enabling it to distribute films much more quickly and inexpensively all around the world. Moreover, as this capability develops, the practical and political ability of countries such as China to limit film imports will decrease. It will also enable Hollywood to disperse production activities to locations and studios around the world while continuing to concentrate post-production activities in Southern California. Thus, as discussed above, the demand for location shoots and studio time in Los Angeles could decline substantially at the same time that the region’s dominance of the post-production and distribution process increases.

Hollywood is also being forced to adapt rapidly to the spread of the Internet. In the words of film critic Roger Ebert: Hollywood and the Internet are on a collision course. The Internet will survive, and so will those in Hollywood who understand it. But the day of the unwired mogul is over. The movie industry has the same relationship to the Internet today that it had to talkies in the 1920s: Plug in or quit.\(^5\)

To date, the studios have used the Internet mostly as a promotional medium. But the greatest potential lies in the use of the Internet to distribute entertainment content directly to audiences. After some delays, the studios are moving to seize this opportunity.\(^5\) For example, last fall, Dreamworks SKG joined with Ron Howard’s Imagine to back POP.com, which is designed to be a high-quality Web site devoted to providing original content programming.\(^5\) And the Southland’s Internet industry is now starting to get a boost from new Hollywood-based venture capital firms headed by former senior executives in entertainment such as former agent Sandy Climan and former Universal Studios head Frank Biondi.\(^5\) Moreover, despite its perceived difficulties, Disney’s
“Go.com” site is still the most visited kids and family entertainment site on the Web.56

There is also a possibility, however, that as the filmed entertainment process moves further into the digital age, the industry’s center of gravity could shift northward to the San Francisco Bay Area. This process has already begun. In the late 1970s, after the completion of the original Star Wars, George Lucas moved his base of operations and, most important, his special effects company-Industrial Light and Magic (ILM) — to Marin county in the Bay Area. Over the past two decades, the Lucas Empire has grown enormously and spawned new companies, such as Pixar, which has become a leader in animated films as a result of the success of features such as Toy Story, A Bug’s Life and Toy Story 2.

The Lucas stimulus, and the advantages provided by close proximity to Silicon Valley, has led to the creation of a rapidly growing Bay Area digital arts cluster.57 If, as planned, Lucas moves ILM and his other technology companies to San Francisco’s Presidio and builds a new research and training center dedicated to the digital arts, the Bay Area will be positioned to mount a serious challenge to Hollywood’s near monopoly in filmed entertainment.58 Especially important in this regard will be whether digital film artists and producers around the world begin to see the Bay Area rather than Southern California as the place where one must go to “be” at the cutting edge of their industry.59 But one indicator of the continuing value of being near Hollywood was the recent announcement by Ifilm.com, an Internet film broadcasting site that launched last year, that it is moving its headquarters from San Francisco to Southern California.60

Over the long run, however, the development that could have the greatest positive impact on the Southland’s ability to establish itself as a leader in digital filmmaking is the completion of the new Disney digital studio, which was responsible for the production of Dinosaur.61

The outcome of the developing California rivalry will depend in large part on which region is best able to compensate for its current weaknesses. For the Bay Area, this means developing a greater capacity to create content. For Southern California, it means fostering the emergence of a more technologically oriented culture. But it also needs to be emphasized that this rivalry is not a zero-
sum game. In fact, one of the easiest ways for the two regions to strengthen their ability to compete in the filmed entertainment market is to join forces. That is already happening at the level of individual businesses — a prime example being the relationship between Disney and Pixar and, more recently, Dreamworks SKG and Pacific Data Images, a Northern California computer animation and digital effects company that was responsible for the movie Antz. There have also been some efforts by industry groups in the two areas to work together. For example, the Entertainment Industry Development Corporation of Los Angeles has partnered with the Bay Area Multimedia Partnership to create SkillsNet, a workforce development consortium that seeks to link industry and educators and provide information and training to job seekers. The future of Hollywood will also depend on the competition now underway to supplant New York as the media capital of America and the world.
Part Four: The Regional Competition for Leadership of the New Global Media Industry

Over the course of the 20th Century, Southern California grew enormously in wealth, stature, and influence. But Greater Los Angeles was never able to challenge the position of Greater New York City as the economic and cultural capital of America — or its claim to be the leader of the international economy. One reason was that Southern California never developed a financial community with the assets and reach of Wall Street. But equally important was the fact that almost all of the nation’s most important media companies-including CBS, NBC, ABC, Time Inc., The New York Times, and the Wall Street Journal — were headquartered in Manhattan. This helped enormously in establishing, preserving, and extending New York’s wealth and influence.

The Rise of New York

Four factors contributed to the emergence of New York as the media capital of America — and, eventually, the world. One of the earliest and most important was the port of New York. In the pre-telegraph era, news traveled with the flow of people and goods; and by the late 18th Century, more people, goods and news flowed through New York than through any other city in the United States. As a result, New York media entrepreneurs were much better positioned than their counter-parts elsewhere in the United States both to collect and disseminate news, especially from abroad. (The early competition among newspapers for scoops about events in Europe consisted of sending reporters on small boats out into New York harbor to meet arriving ships.)

New York’s early comparative advantage could have disappeared with the development of new modes of long-distance communication following the invention of the telegraph, the telephone, and the radio. It didn’t, largely because the individuals responsible for those technological advances and the companies that quickly formed to exploit them concentrated in New York City and its surrounding region. Examples include the Associated Press, AT&T, GE, Westinghouse, RCA, and, of course, the first two major broadcast radio networks: NBC and CBS.
The fact that New York was also the home of Wall Street and the headquarters of a disproportionate share of the nation’s largest and most powerful companies and its richest foundations and museums also played a role in making the city the national media capital. Because of their presence, what happened in New York mattered to the rest of the nation much more than what happened in Chicago, or New Orleans, or San Francisco. In fact, the only city in the country that generated as much “national” news as New York was Washington, D.C.

A final crucial factor in the development of the region into the world’s leading media center was the leadership role played by key individuals such as Adolph Ochs, who purchased The New York Times in 1896 and began to turn it into America’s most influential newspaper; RCA’s David Sarnoff and CBS’s William Paley who created network broadcasting; and Time-Life’s Henry Luce, who coined the phrase “the American Century” and used his magazines’ resources to promote the vision it represented. Other cities had their own boosters. For example, Atlanta had Henry Grady, editor of the Atlanta Constitution, who spread the gospel of “a New South,” Los Angeles had General Otis and Harry Chandler, who used their Los Angeles Times to sell the idea that Southern California was a new American promised land, and “Chicagoland” had Colonel Robert McCormick and his Tribune. But none of them had visions that were as grand or resources that were as great as their counterparts in Manhattan. Nor did they have the backing of a local establishment that was as rich and powerful, or as cohesive, as the New York establishment.

The growing influence of the New York media was also strongly self-reinforcing. For example, by the mid-1800s the city had already developed into a major publishing center. This caused aspiring writers to flock there. As they did, the imbalance between the writing talent found in New York and that found in other cities widened, giving new publishers and magazines even more reason to launch themselves in New York rather than Philadelphia, Cleveland, or another major American city. Later, as the radio and television industries began to develop, the talent pool created by the attractive power of the publishing industry provided a ready source of recruits. Another equally important way in which the city’s dominant position perpetuated itself involved advertising revenue. As New York established early leads, first, in magazine publishing, then, in national radio broadcasting and, finally, in television, it drew advertising dollars to the city. These
revenues, in turn, allowed the New York media to make the investments necessary to maintain and expand their audience — and bring in even more advertising revenue. In the process, New York also became the center of the advertising industry.

The concentration of the media industry in New York City also had a major impact on national opinion. Beginning in the early 19th Century, opinions expressed in Manhattan had a much greater chance of gaining the attention of the rest of the country than those expressed in other cities. Moreover, a subtle bias developed whereby the prevailing views of New York cultural, economic, and political elites were quickly identified as “national” views, whereas those of their counterparts in the Midwest, South, and Far West were far more likely to be considered “regional.” This tendency was strengthened by the fact that from the early post-independence days forward, the leading advocates of “nationalization” were New Yorkers. In fact, of the four political figures that played the greatest role in promoting a national vision of the United States, three — Alexander Hamilton, Theodore Roosevelt, and Franklin Roosevelt — were New Yorkers. The lone exception being Abraham Lincoln.

**Challenges to New York**

Over the past three decades, New York’s control over the media has been seriously challenged. The three most important forces causing this shift have been the enormous demographic growth of the Sunbelt, the fragmentation of the national economy, and the technological revolutions in the media caused by the advent of satellites and, later, digitization.

Since independence, the American population has steadily flowed westward, but it was not until the 1960s that the demographic balance began to shift decisively in favor of the Sunbelt. This shift is most evident in the enormous change in the relative size of the population of the Northeast and Upper Midwest relative to the population of the South and West. As a result of this shift, audiences and markets in three states in particular — California, Florida, and Texas — have become much more important for the national media.

Income and wealth have also shifted westward. The old highly integrated national industrial
Southern California's Prospects

Southern California has long seen itself as a potential successor to New York as the capital of America and the world. As the second largest and most diverse region in the country, the Southland had the demographic and economic weight that most of the other emerging metropoles across the country lacked. Moreover, its strategic location on the Pacific Rim made it the natural center of a world economy whose center of gravity seemed to be moving westward. In fact, the connections that began to develop between Los Angeles and Tokyo as the world moved into the global epoch looked very similar to those that had developed between New York and London at the beginning of the national epoch. And, most important, Southern California
had the advantage of being the headquarters of the most valuable media assets — the Hollywood studios — that weren’t concentrated in New York and the only regional paper in the country, the Los Angeles Times, that could realistically imagine itself as a national rival to The New York Times and the Washington Post.

Southern California’s challenge to New York gained credibility as a result of two mergers — the 1985 acquisition of 20th Century Fox by Rupert Murdoch’s News Corp. and the 1995 purchase of Capital Cities/ABC by The Walt Disney Company. By the time that Disney purchased ABC, Murdoch’s Fox Network had already established itself as a serious rival to the three original networks, whose national ratings were declining sharply. The fact that the Southland now controlled two of the nation’s four major networks represented a potentially dramatic shift in the media industry. Five years later, however, the region’s transformation into the new global media capital seems to have slowed.

Neither Disney nor News Corp. has seemed interested in using their acquisitions to shift the center of the media industry to Southern California. For example, neither has taken any significant steps to change the fact that the major national news shows are based in New York and Washington, D.C. Moreover, digitization and the rise of the Internet have dramatically changed the media scene and brought an entirely new set of players into the picture. Control over old-style television networks now matters much less than control over the pipes and portals that will channel the flow of multimedia content to audiences in the future. Thus, who controls companies such as AT&T, AOL, Microsoft, and Yahoo!, and where they are headquartered, is as important as who controls the television networks and where they are located. This reality was dramatically underlined by the recent move by Time Warner to remove ABC Network programming from the offerings on its cable systems because of a dispute with Disney over fees.

Moreover, while Southern California has begun to develop a network of small- and medium-sized high-tech companies, it has not yet emerged as a major player in the new digital economy. The region has several large high-tech companies such as Ingram Micro and Computer Sciences Corporation, but they cannot rival the global technological clout of companies such as Intel,
Microsoft, Silicon Graphics, Oracle, and Macromedia. Even in the area of new media, it is still far behind the Bay Area — and, to a lesser extent, New York, Boston, and Seattle. One indicator of this is the regional distribution of the membership of DiMA, the increasingly influential Digital Media Association. One Southland institution that could help to change this equation over the long run is Idealab, a business incubator in Pasadena founded by Bill Gross that has already launched more than 30 “dot-coms.”

The high-tech revolution has also radically altered the financial equation in the media ownership game in ways that have not helped the Southland. The astounding rise in the stock valuation of high-tech companies generally and the new dot-com media companies in particular has given them the wherewithal to acquire the old media companies. Five years ago, it would have been considered absurd to suggest that AOL would purchase Time Warner or that Yahoo! Would purchase Disney. Today, the first is a reality; and the possibility of the second has been seriously discussed. Even after the recent decline in technology stocks, the market capitalization of companies such as Microsoft and Yahoo! continues to give them enormous potential influence. The region that has gained the most as a result of the surging value of high-tech companies has been the Bay Area. In fact, because of the wealth created by the high-tech industry and its emergence as the capital of the new venture capital industry, the Bay Area is now in a position to exercise the same kind of financial influence over other metropolitan regions that New York and Wall Street have exercised in the past.

Finally, New York City, led by Time Warner, has fought back. The 1989 merger of Time Inc. and Warner Communications created the first company ever to have a dominant position in filmed entertainment, publishing, and cable television. Seven years later, it greatly expanded its position in cable by purchasing Turner Broadcasting. This latter move was particularly significant because it served to ensure that Atlanta and CNN would not continue to evolve into an alternative national news center. Then, at the beginning of the new millenium, Time Warner’s Gerald Levin and AOL’s Steve Case shocked the media industry by announcing that AOL was acquiring Time Warner. This will create a new mega-media power with the ability to produce a greater and more diverse range of multimedia content than any other company and the capacity to distribute it through all of the
most important pipes. An equally important example of the ability of New York institutions to adapt to the new environment is the way The New York Times has expanded its coverage of other parts of the country, especially California. The regional stakes in the struggle for control over the media are extremely large.

The probable benefits for the winner will include:

• becoming a magnet for creative talent from around the country and the world
• becoming a center of the new global, multimedia advertising industry
• gaining a much-heightened ability to shape national and global cultural, economic, and political agendas
• gaining a substantial advantage in the race to profit from the e-commerce revolution

Moreover, the rewards from winning the early rounds in this competition are likely to be self-reinforcing. For these reasons, the long-term future of Southern California’s role in the new digital-global world economy will depend in large part on how its civic and corporate leaders choose to respond to the changes now underway in the media and entertainment industry.
Part Five: A Strategy for Southern California

Southern California’s ability to develop a regional strategy to respond to digitization and globalization is greatly limited by its growing fragmentation and lack of strong institutional leadership. Despite the myth that it didn’t exist, “downtown” Los Angeles has been largely responsible for boosting and directing the region’s growth. In recent years, however, its role has been weakened by the decline or departure of major corporations that had been headquartered in Los Angeles, the growing push by affluent parts of the city to break away and form their own independent municipalities, and, more recently, the sale of the Los Angeles Times. This trend makes the future of Southern California’s media and entertainment industry more important than ever.

Throughout most of the 20th Century, a deep cultural chasm separated “Hollywood” from “downtown.” While the fate of Los Angeles and its filmed entertainment colony were inextricably intertwined in the public mind, Hollywood executives were never integrated into the informal networks that guided the region in the same way that media executives in Manhattan were integrated into the networks that guided Greater New York City. In the past, this separation wasn’t a major cause for concern. Southern California benefited tremendously from the film industry’s presence without needing (or necessarily wanting) its participation in regional governance. But that is no longer the case.

The Need for Regional Leadership

As the regional economy has been transformed from one based on aerospace, oil, and traditional manufacturing into one that is increasingly based on entertainment and high-tech, it has become much more urgent that Hollywood assume a leadership role in the region. For better and worse, the ability of the Southland to realize the dream of becoming “Tech Coast” will depend largely on its ability to use the comparative advantages created by its filmed entertainment cluster to compete with Silicon Valley, Greater Seattle, and other metropolitan regions in attracting the individuals and companies who will shape the new digital-global economy. Moreover, the decline
of the old downtown networks and visions that guided the region has created a void that can only be filled by the development of networks and visions that include the new Hollywood. As indicated by their efforts to promote the entertainment industry and revitalize Hollywood, the mayor of Los Angeles, Richard Riordan, and other civic leaders clearly recognize the need for a new relationship between Hollywood and downtown — and they are already working hard to create it.

The possibility of a new civic partnership has been greatly enhanced by changes in the character of both the media and entertainment industry and the region’s old governing elite. The new Hollywood represented by The Walt Disney Company, News Corp., Sony Entertainment, and Dreamworks SKG is much different from the old Hollywood. Vestiges of the old Hollywood culture described by Carey McWilliams more than fifty years ago remain. But, as a result of the changes in the ownership of the studios and the character of the entertainment industry that occurred as a result of the first wave of mergers of convergence described above, Hollywood now looks, thinks, and acts much more like the old New York media giants. At the same time, the Southern California civic and corporate community has become much more diverse and open.

Small indicators of these shifts include the growing civic prominence of Hollywood moguls such as Michael Eisner and David Geffen and the fact that the president of the Los Angeles Dodgers, a team that was closely associated with old downtown interests during the O’Malley era, is Robert Daly, a former head of the Warner Brothers studio.

Over the long run, however, the emergence of a new coalition that includes the region’s old downtown establishment, the leaders of its rapidly growing and newly influential ethnic communities, and the new Hollywood will depend on the ability of these groups to coalesce around a new vision of Southern California and its place in the emerging digital-global economy.

A good place to begin efforts to develop such a vision would be with a regional dialogue on the future of the filmed entertainment industry and the broader challenges of securing the Southland’s emerging position as a global center of the new media industry.
It is beyond the scope of this paper to recommend a comprehensive strategy to protect Southern California’s filmed entertainment industry and promote the region’s role as a global media center. The best and ultimately only way to develop an effective strategy and build support for it would be to engage the region as a whole from the start. But it is possible to outline three elements that will need to be a part of any successful effort.

**Capitalize on Diversity**

Southern California needs to use its ethnic and cultural diversity to strengthen its comparative advantages in the pre-production phases of the filmed entertainment industry and, more broadly, to make the region an even more important influential force in the new global media market.

One of the original sources of Hollywood’s ability to understand and capture the hearts and minds of the American audience was the fact that, for most of the 20th Century, Southern California was the national melting pot. From the 1920s until the late 1960s, immigration into America slowed. But in the same period, there was a tremendous migration of people from different parts of the country to Southern California. As a result of this migration, the region’s population more closely mirrored the diversity of the rest of the nation than any other place in the country. This made it an ideal place to identify and test the “national” appeal of ideas, images, and themes and hence to create filmed entertainment for the American mass audience. Today, as a result of the immigration over the past three decades from around the world to Southern California, the region is probably the best place in the world to identify and test the “global” appeal of ideas, images, and themes and to create filmed entertainment for the mass audiences of the world. There are, in fact, very few important segments of the new global audience that are not represented in the Southland.

Emphasizing the connection between the cultural and ethnic diversity of Southern California and the ability of media companies based there to reach global markets could help to build regional cohesion in a number of ways. It gives the media and entertainment industry a major economic reason to identify with the region and seek to develop closer relationships with Southland...
communities. At the same time, it gives ethnic and other globally-minded groups in the region a reason to see the industry as an important potential ally in efforts both to create 21st Century jobs for their members and to connect with their kith and kin in other parts of the world. The potential in this area is most evident in the way that South Florida has taken advantage of its strong Latin cultural connections to position itself as the media capital of Latin America. The difference in Southern California is that, given its ethnic diversity, it can aspire to be a major media capital of almost every ethnic diaspora in the world. By doing a better job of integrating the region’s different ethnic communities (and the global connections and sensitivities they bring with them) into the filmed entertainment cluster, Hollywood could greatly protect itself against potential competition from other metropolitan regions. Similarly, the region’s aspiring global television networks and Internet portals would greatly increase their ability to reach into markets abroad by making use of the cultural connections and language abilities of these groups. Actions that could be taken in this area include:

• Educational institutions such as the School of Cinema-Television at the University of Southern California (USC), the School of Film, Theatre and Television at UCLA, the American Film Institute, and the Academy of Entertainment and Technology at Santa Monica College should work with ethnic and immigrant organizations to develop training programs that prepare students to take advantage of the new opportunities that are being created by the growth of the global market for entertainment and increases in foreign production.
• Regional institutions such as the Norman Lear Center at the Annenberg School for Communication at USC or the Entertainment Industry Development Corporation of Los Angeles should examine the role that ethnic and immigrant communities in Southern California can play in helping to build linkages between the region’s media and entertainment industry and their homelands.
• Regional media companies such as The Walt Disney Company and News Corp. should enlist the support of ethnic and immigrant communities to develop content for the global market, and they should consider ways to use their Internet sites as tools to increase connections and communication between those communities and their homelands.
Establish Global Partnerships

One of the most unfortunate effects of the “runaway production” debate is that it serves to create conflict between Southern California and other film-producing regions. This has been especially true with regard to relationships between the Southland and Canada’s film centers in British Columbia and Ontario. As argued in previous sections, these conflicts are based on the mistaken assumption that film-producing regions are engaged in a zero-sum competition.

Because of its unique advantages in the pre- and post-production parts of the industry, Hollywood is especially well positioned to benefit from the overall growth in the market for filmed entertainment, even if its share of actual production declines. Conversely, attempts to get the local, state, and national government to provide economic subsidies for domestic production are unlikely to succeed. And even if they did, it is far from certain that they would significantly reduce runaway production. A better regional strategy would be one that concentrated on helping to expand global demand for filmed entertainment, and developing synergistic relationships with other film-producing regions. Instead of seeking to discourage the development of film industries in other countries, the Southland should seek to carve out a role for itself as the filmed entertainment industry’s center of advanced development and innovation, and as a vital partner for other regions seeking to develop their own production capabilities. Actions that could be taken in this area include:

• City, county, and regional officials responsible for economic development and the Motion Picture Association of America should engage educational institutions, professional groups such as the Directors Guild and the Screen Actors Guild, and local ethnic and immigrant communities in a concerted effort to develop closer cultural, economic, and professional ties with key regions around the world. They should establish programs that would build lasting connections between the Hollywood cluster and the nascent entertainment and media clusters in those countries. (An extremely promising example of this kind of initiative is the new online global film school that has been jointly organized by the Australian Film, Television and Radio School in Sydney, Australia; the National Film and Television School in London, and the UCLA School of Theater, Film and Television in Los Angeles.)
• The City of Los Angeles could take the lead in creating a global network of film-producing regions that would meet regularly to discuss ways to promote the worldwide growth of demand for filmed entertainment. Such a network could seek to play a leading role in the emerging debates on efforts by companies to deny content producers and distributors access to the broadband pipes that will carry digital content to audiences in the future, on international protection of intellectual property rights, and on other issues that will affect the long-term profitability and growth of the entertainment industry.

**Build Bridges to the Bay Area**

As argued above, digitization and the continued concentration of the media industry in New York City represent the greatest potential threat to Southern California’s dominant position in the filmed entertainment industry. By changing the production and distribution process, digitization could reduce the comparative advantages of the Hollywood cluster and make it possible for a region such as the Bay Area with its technological advantages to shift the center of power within the entertainment industry. By exercising control over the distribution and delivery of content, media giants based in New York (or eventually foreign centers such as London, Berlin, or Tokyo) could channel the development of e-commerce and limit the ability of the Southland’s entertainment companies to reach global audiences. Both of these possibilities could threaten Southern California’s long-term economic interests. There are a number of things that regional actors could do to counter this potential threat. One of the most important is to put even greater effort into developing the technological base of the regional economy.

But the best way for Southern California to protect its interests and ensure that it is prepared to compete in the new global economy would be to work with the Bay Area to develop a coordinated regional strategy. Combining the human resources, economic wealth, global connections, technological advantages, educational resources, and creative capabilities of the Southland and the Bay Area would ensure that California (and the Pacific West more generally) will be the capital of the new digital-global economy. However, creating such a regional axis would not be easy. It would require a concerted effort to overcome long-standing rivalries, deep cultural differences, and the fragmentation of both regions. But the potential rewards from doing
so are substantial enough that the effort should be made.

A good place to start to build a new California global partnership would be for state and regional leaders in Southern California and the Bay Area to create a task force bringing together key individuals from government, industry, academia, media, and the independent sector to develop strategies to ensure that the State becomes the headquarters of the new digital media industry.
Endnotes

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30 ibid., pp.23-4
32 U.S. Runaway Film and Television Production Study Report, p.2
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