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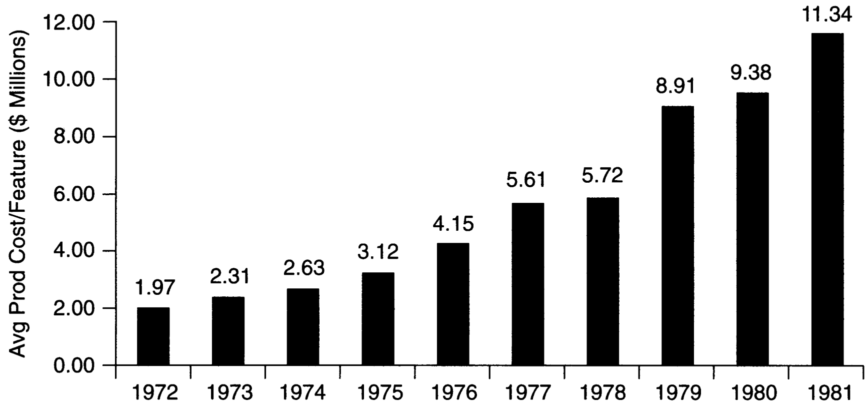
Introduction: A Decade of Change

If, as Joan Didion has written, the deal is the true art form of Hollywood, the masters of this art are the tax shelter specialists.
MARIE BRENNER, JOURNALIST, 1977

The American film industry changed more between 1969 and 1980 than at any other period in its history except, perhaps, for the coming of sound. Changes in the style and content of the movies themselves, remarkable though they were, barely hinted at the deep structural alterations in the way films were conceived, produced, and distributed from the beginning to the end of the decade. During that time, profits for the most successful motion pictures rose from the hundreds of thousands to the hundreds of millions of dollars. Production dropped off sharply as studios came to shape their schedules around a handful of potential blockbusters or "event" movies—any one of which could produce windfall profits and send their stock soaring on Wall Street—with the expectation that the rest would break even (25–30 percent) or fail. This "blockbuster mentality" radically increased the financial risks of filmmaking and led the industry to pursue a variety of risk reduction strategies whose net effect was to take production finance out of studio hands. At the beginning of the decade, most production capital was derived from rolling box-office revenues and line-of-credit agreements with commercial banks; by its end, the majority came from tax shelters (outlawed domestically in 1976, but widely available to foreign investors thereafter) and Federal investment tax credits, presale agreements with television[1] and cable networks, advance exhibitor guarantees through such practices as "blind-bidding," and ancillary merchandising tie-ins such as books, toys, and sound-track albums. (Home video license fees, nonexistent in 1969, accounted for less than $9 million before the resolution of *Universal v. Sony/Betamax* in October 1979,[2] but by 1985 the sale of movies on videocassette would be worth $4.55 billion.)[3] In the interim the movies themselves had become both bigger—inflatable to "event" status, and smaller—reducible to the size of a half-inch videocassette. They had also become considerably more lurid, as the MPPA ratings system permitted the graphic depiction of sex and violence once proscribed by the Production Code, and the majors brought the stylistic and marketing practices of exploitation cinema into the mainstream.

RISE IN AVERAGE NEGATIVE COSTS, 1972–81



SOURCE: *MPAA*

The ultimate effect of the blockbuster syndrome, and the "outside money" it both attracted and required, was to raise the ceiling on industry costs across the board—causing what veteran industry analyst A. D. Murphy called "a cancer on the business."[4] Average negative costs inflated from $2 million in 1972 to nearly $10 million in 1979, an increase of 450 percent in less than seven years.[5] Even more astounding, marketing budgets exceeded negative costs for the first time in industry history, marking a seismic shift whereby the cost of promoting a film actually exceeded the cost of producing it—often by twice as much.[6] Advertising campaigns went from local to national, fueled by huge purchases of network television time, and distributors turned to the practice of "four-walling" and saturation booking to build product awareness and maximize the available audience. By the late seventies, marketing and distribution executives had come to dominate studio production policy, even as lawyers and agents (from agencies like ICM [International Creative Management], which put together the JAWS deal, and CAA [Creative Artists Agency], founded by Michael Ovitz in 1975) dominated the packaging of creative personnel. Projects were selected for their marketing potential, demographic appeal, and ability to hedge risks, rather than for any intrinsic merit as entertainment, much less as art or social comment; and films were constructed to pander to focus groups, like fast food and other new products. (During the studio era, by contrast, marketing was not a determinant issue because market hegemony, broken by the 1948 consent decrees, was implicit in the majors' control of exhibition.)

The industry's embrace of outside financing occurred simultaneously with increasing diversification. As a direct result of overproduction and attendant cash crises during the 1960s, all of the studios but 20th Century–Fox, Columbia, and Disney had been taken over by conglomerates by the decade's end. (However, Columbia and Disney had both diversified on their own by entering teleproduction as early as 1954; furthermore, Disney was an industry pioneer in such ancillary markets as theme parks and product merchandising.) Beginning with the purchase of Universal by MCA in 1962—and extending through Paramount's sale to Gulf & Western Industries in 1966, United Artists' sale to Transamerica Corporation in 1967, the sale of Warner Bros. to Kinney National Service Corporation, and MGM to Las Vegas financier Kirk Kerkorian in

1969—the studios were one by one absorbed by larger, more diversified companies for whom they represented good investments, since their shares were temporarily undervalued and they owned huge tracts of real estate in one of the nation's most lucrative markets. (It was also understood that, under proper management, theatrical filmmaking offered the chance of very large returns on modest outlays, and that the studios' existing negatives—i.e., their film libraries—offered immense potential in sales to television.)[7] During the seventies, diversification increased, as the studios became the main suppliers of network television programming and expanded into such related businesses as camera equipment (Warners/Panavision), recording (Columbia/Arista), theme parks (Disneyworld, the Universal Studios tour), and resorts (MGM opened the MGM Grand hotel and casino; Fox bought [and later sold] the Aspen Ski and Pebble Beach resorts.)[8] Conglomerate ownership offered the benefits of "synergy" whereby diversified components of a company (e.g., moviemaking, publishing, recording, and merchandising) could market the same product or "franchise" (e.g., STAR WARS) in mutually enriching ways, providing the benefits of cash liquidity from unit to unit and country to country so that losses in one business could be offset by profits in another—a potent form of risk reduction.

By ensuring a steady flow of production capital through diversification of risk, conglomeration lifted the industry out of a deep recession, which had produced at least $600 million in losses for the majors between 1969 and 1971 and, by 1970, left 40 percent of all Hollywood filmmakers unemployed.[9] Under new management, the same studios posted profits of $173 million in 1972–1973, thanks largely to the success of a few heavily marketed blockbusters. (In fact, by the end of the 1970s, 220 films would earn more than $10 million each in rentals—and many, a good deal more—representing a 400 percent increase over the 1960s.)[10] In the interim, however, veteran industry leadership had been replaced by a melange of agents, lawyers, bankers, and business executives who saw filmmaking primarily as an investment strategy, not unlike commodities trading, which combined the risks of high-stakes speculation with a virtually limitless potential for corporate tax-sheltering. It was inevitable that this new perspective, together with drastically escalating costs, would warp the shape of the industry and change its attitude toward its product in fundamental ways.

Almost since its inception, the American film industry had been characterized by the orderly pursuit of profits epitomized by the Hollywood studio system, which dominated the period 1927–1952, and exerted considerable force for fifteen years before and after that. In its classical form, this system controlled production from start to finish, maintaining a stable of stars and production personnel under long-term contract, and retaining all motion picture profits for itself. Historically, these profits depended on providing the public with a regular roster of high-quality filmed entertainment (A-films) across a variety of genres and budget categories, always aimed at the general audience and, after 1934, tailored to the standards of the Production Code. B-films (low- to medium-budget films produced by both the studios and Poverty Row for the second half of double bills), and exploitation cinema (extremely low-budget films targeted for ethnic or "grind house" markets) existed at the margins of the system, often distributed through alternative "states rights" agreements and rented to exhibitors at low-profit flat rates.

However, the 1948 consent decrees and two decades of enormously costly films reconfigured the system, culminating in the "Recession of 1969" and attendant corporate buy-outs. This convulsion, combined with demographic shifts in audience composition and the replacement of the Production Code by the MPPA ratings system, led the majors to embrace exploitation as a mainstream practice, elevating such previous B genres as science fiction and horror to A-film status, retrofitting "race cinema" as "blaxploitation," and competing with the pornography industry for "sexploitation" market share. Grindhouse-style gore was injected into seemingly conventional Westerns and gangster films, and four-letter words became obligatory in all but family-rated genres (G and GP categories). By 1974, sequels and series, the very fodder of B-film production during the studio era, loomed as a major strategy for risk reduction among the majors, who have since devoted approximately 10 percent of their rosters to these categories.[11] (Combined with reissues, in fact, sequels and series accounted for 17.6 percent of all Hollywood releases from 1974 to 1978.)[12] Finally, with Universal's release of JAWS (Steven Spielberg, 1975), the majors borrowed the distribution tactic known as saturation booking—opening a film in many theaters simultaneously, accompanied by intensive advertising—from the exploitation field, where its main purpose was to generate quick profits before bad reviews and word of mouth killed business, and customized it as the standard mode for launching blockbusters, or "event" films. However expensively and professionally produced, the 1970s-style blockbuster became inherently exploitative when placed into patterns of wide release. As Stuart Byron noted at the time, "Almost by definition, a film that opens everywhere at once is an exploitation film. . . ."[13]

The turn toward exploitation was fueled by two other changes in the American film industry—the transformation of the exhibition sector and the advent of the VCR. During the studio era, exhibition was controlled through a run-zone-clearance system of distribution in which the country was divided into thirty markets subdivided by zones. Within each zone theaters were classified as first-run (urban showcases, usually owned by the majors), second-run ("neighborhood" cinemas), and subsequent-run, according to scaled admission prices, with "clearance" periods between runs determined by the distributor in order to maximize profit.[14] While a twenty-five-year decline in film attendance, 1946–1971, reduced many of the second-tier theaters to sub-run status, soaring production, advertising, and promotion costs during the seventies caused distributors to launch films on a wider basis than the old single-screen, exclusive-run model. This in turn caused a major increase in the number of theaters with key or sub-key status and kept major films at a higher level of release for a longer periods during which higher admission prices could be charged.[15] The result was a steady 7.7 percent annual growth in revenues of throughout the decade (while admissions for the entire period grew only 2.1 percent, to 1.18 billion); with a subsequent boom in the construction of suburban multiplex theaters, or "mini-multiples," where top ticket prices could be charged for premiere runs in multiple auditoria with seating ranging from 100 to 200, as opposed to the older first-run houses that seated 1,000 or more. (Most of the multiplexes were located in shopping malls, which experienced a 90 percent increase from 1970 to 1980.)[16] By December 1980, *Variety* estimated that 55–60 percent of all American theaters were in first-run status,[17] and the total number of indoor screens had risen from 10,335 in 1971 to 14,029 (with the number of drive-in screens dropping slightly from 3,770 to 3,561), although actual capacity had declined by about one million seats.[18]

Helical-scan videotape systems, the basis for home video recording, were perfected by electronics companies during the 1960s. As early as 1970, Peter Guber, then production vice president for Columbia Pictures, had published a detailed technical essay predicting "limitless" potential for the VCR,[19] and Gulf & Western president Charles Bluhdorn told *Life* magazine, "Movies in cassettes for home viewing will open a tremendous market."[20] Introduced to American consumers by Cartrivision Television, Inc., in 1972, the half-inch videotape recorder did not catch fire until the advent of the Sony Betamax (SL-7300), whose immediate success in early 1976 spurred JVC (Japanese Victor Corp., largely owned by Matsushita Electric but independently run) to introduce its competing VHS format only months later. Sony initially promoted the Betamax for "time shifting" (the ability to record TV programs for later playback), but, sensing a threat to motion picture profits, Universal and Disney filed suit against Sony for copyright infringement in November 1976.[21] As the case wound its way through court, film industry resistance to the new technology gradually faded and consumer video came to be seen as a vast new market for Hollywood product. In 1977 Fox made an historic deal with Andre Blay's Magnetic Video of Farmington Hills, Michigan, for nonexclusive video rights to fifty pre-1972 titles,[22] and Allied Artists licensed one hundred titles for distribution on pre-recorded cassette the following year. In October 1979, *Universal v. Sony* was resolved for the defendants, U.S. sales of VCRs passed one million, and Warner Bros. formed Warner Home Video. By 1981, three million VCRs had been sold (two-thirds of which were in the VHS format), all of the Hollywood majors had their own video divisions, and the historic shift was nearly complete.

At the beginning of the 1970s, the movies were primarily a collective experience—something seen regularly on large screens in specially designed theaters with masses of other people. By the decade's end they had become something that could also be carried around in a briefcase or shopping bag for video playback at home. In between, many had achieved the status of pre-sold "events" or "franchises" that were nationally and internationally marketed through every conceivable communications channel, but pre-eminently network television. The costs of these blockbusters became so exorbitant that no one studio could afford to produce more than a few, and late in the decade it was possible for the fate of an entire studio to ride on the success or failure of a single film.

To reduce risk, the majors experimented with joint finance (starting with the Fox-Warner collaboration on THE TOWERING INFERNO [John Guillermin, 1974]),[23] presale of ancillary television and video rights, nonrefundable exhibitor guarantees, and merchandising of ancillary product tie-ins such as books, records, and toys. Above all, they reduced their exposure by drastically cutting back on product and letting other producers bear the risk. It was during the 1970s, in fact, that the majors ceased to function as the regular and primary originators of feature film entertainment in the United States and assumed their current role as suppliers of film finance and distribution for "independent" producers (which simply means any producer not on a studio payroll). By the 1990s, the studios were universally understood to be film financier-distributors, whose primary audio-visual product was telefilm and cable programming.

A cynic might suggest that the net result of these changes was to turn the movies from something special into something ordinary, and it is true that the mass marketing of an "entertainment franchise" like Fox's STAR WARS (George Lucas, 1977) or Columbia's THE DEEP (Peter Yates, 1977) resembled nothing so much as the selling of fast food (in fact, product tie-ins with restaurant chains often meant that the franchise *was* selling fast food). It is also true that the ability to physically possess and play back a movie at will—and in miniature—inescapably reduced its stature as a cultural artifact. But it would be wrong to assume that these fundamental changes in the way movies were produced, distributed, and consumed have somehow cheapened the power of filmic experience itself. In fact, in demystifying some of its processes (as the VCR does for editing, for example), the new forms and practices have extended the American cinema's range. However, it was the seventies that gave us the pre-digested, market-tested cinema of contemporary Hollywood where films are manufactured like two-hour sound bites designed to press all the right buttons without ever committing to a firm point of view. Somewhere between the dumbing down of American corporate culture that produced the cynical young tycoons of the "New Hollywood"[24] and the remarkable aesthetic revival that produced the *auteur* directors of the "Hollywood Renaissance"—and films like FIVE EASY PIECES (Bob Rafelson, 1970), CARNAL KNOWLEDGE (Mike Nichols, 1971), STRAW DOGS (Sam Peckinpah, 1971), A CLOCKWORK ORANGE (Stanley Kubrick, 1971), THE GODFATHER (Francis Ford Coppola, 1972), MEAN STREETS (Martin Scorsese, 1973), CHINATOWN (Roman Polanski, 1974), THE CONVERSATION (Francis Ford Coppola, 1974), NASHVILLE (Robert Altman, 1975), BARRY LYNDON (Stanley Kubrick, 1975), TAXI DRIVER (Martin Scorsese, 1976), THREE WOMEN (Robert Altman, 1977), DAYS OF HEAVEN (Terrence Malick,1978), THE DEER HUNTER (Michael Cimino, 1978), and APOCALYPSE NOW (Francis Ford Coppola, 1979)—lies a cinema of great expectations and lost illusions that mirrored what the historian Peter N. Carroll has called the "tragedy and promise of America in the 1970s."[25]

The trajectory of this cinema paralleled that of other cultural production during the seventies, wherein multimedia mergers and conglomeration created the conditions for hegemonic market control in the eighties and nineties. But the film industry might well have taken a different path. In the late sixties, on the brink of a crippling recession, the studios' new corporate managers had discovered the "youth market" in the success of films like BONNIE AND CLYDE (1967), THE GRADUATE (1967), and EASY RIDER (1969), and they attempted to exploit it by recruiting a rising generation of writers, producers, and directors from the ranks of such films schools as USC, UCLA, and NYU. These filmmakers, later collectively christened the "film generation" or the "Hollywood brats,"[26] brought fresh, cost-effective talent to an industry embroiled in financial crisis and structural change, and, for a few brief years, the studio chiefs gave them unprecedented creative freedom. They used this license to develop an American *auteur* cinema on the European model whose influence held sway in Hollywood—always somewhat tenuously, at least until 1975, and selectively thereafter. In that year, the astonishing success of JAWS turned the industry single-mindedly toward the pursuit of a "blockbuster strategy," and those who could or would not follow were left behind. At this juncture, as one observer put it, "deal-making . . . replaced filmmaking as the principle activity of Hollywood,"[27] and with STAR WARS (1977) the power of merchandising and sequel rights to create a "franchise" usurped the importance of both.

By the end of the decade, Hollywood's financial health was restored, and the conglomerate ethic ruled as pervasively in the film industry as it did in publishing, music, and television: increasingly films, books, records, and product merchandise would be conceptualized and promoted as integrated packages under a single corporate logo. The "Hollywood Renaissance," circa 1967–1975, represented a rare moment in American cinema; one that captured our society at a time when it literally seemed to be coming apart, but it was irretrievably lost to the era of the consensus-building "super-grosser" or "megahit"—the big-budget, mass- and cross-marketed blockbuster whose potential to drive corporate profits made it the Holy Grail of conglomerate managers and financiers. As the crucible for this fundamental and lasting change, the 1970s was a decade as important as any in the history of American film.