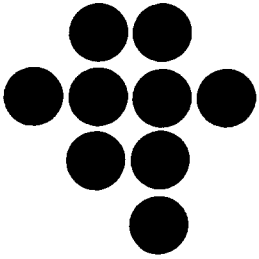


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"Capitalism and Hollywood:
The Movies As Corporate Product

October 11, 1990

Seminar Notes



**MASSACHUSETTS INSTITUTE OF TECHNOLOGY
COMMUNICATIONS FORUM**

**"Capitalism and Hollywood:
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**Prof. David Thorburn, MIT, Moderator
Dr. Charles Musser, Columbia University
Dr. Thomas Schatz, University of Texas
Elizabeth H. Prodromou, M.I.T., Rapporteur**

This session of the M.I.T. Communications Forum brought together two representatives to discuss questions related to the subject of "Capitalism and Hollywood: The Movies as Corporate Product."

Dr. David Thorburn, MIT, introduced the speakers. He remarked that there is a tradition at MIT for a certain number of the Communications Forum seminars to be devoted to topics that are broadly humanistic. He noted that his function on the Board of the Forum is to bring that perspective to the seminars. He also remarked on those people who see themselves as working in mainly technological areas of communication; he noted that, oftentimes, these people seem not to recognize the fact that film and media scholars working in an essentially humanistic perspective do work which profoundly affects what the technology and the policy people think. Thorburn noted that one of the function of today's seminar is to confront that issue directly.

Thorburn commented on the pathbreaking work in the field of film scholarship being done by both of today's speakers. He noted that their work will influence the next generation of film scholars. He introduced the first speaker was Dr. Charles Musser, Film Division, Columbia University. Musser gained his first fame with a book entitled Before the Nickelodeon.

Musser summarized his presentation as an attempt to synthesize some of his recent work. He said he was taking his cues from the title of the workshop, and decided to explore the notion of the film studio, the studio system, as a factory. He remarked that films are made in some ways on a kind of assembly line, albeit one that produces products with a greater diversity than, for example, the automobile assembly lines. He noted that the parallel, though, is made sort of reflexively and therefore needs more careful analysis.

Musser argued that standardization does not take place in the film production process but actually in a later stage that is usually not talked about under the heading of film making: that is, the making of prints and the process of exhibition. He maintained that that is where standardization as we know it in terms of cinema actually takes place. The impact is apparent in that, when we all go to a film, we have the same experience to a certain degree. He commented that this is basically a standardization of the process of reception. He went on to claim that, in a way, it is impossible to talk about film production unless we talk about the production of cinema - cinema meaning the exhibition and manufacturing of prints. Musser remarked that making a film is not like making a car, but like making the prototype of the car.

The process of creating an assembly line or standardization is that of creating a program which would be consistent from theater to theater and of exhibiting the film in a relatively consistent way from theater to theater. Musser noted that this sort of standardization is often taken for granted, but he observed that early cinema offers some perspective on this notion of standardization. Musser explained that this fact explains his own involvement with the beginnings of film, because the origins offer a new perspective on the cinema of today.

Musser discussed the example of 1898 and the Spanish American War. He explained that there were many programs on the war. What happened was that exhibitors would buy prints which were, in fact, only one shot long. They would also make lantern slides. According to Musser, there is much documentation on the many feature-like programs on the Spanish American War made by different exhibitors throughout the country. The exhibitors would make their selection of films, then edit or sequence them into a narrative, add narration and music and effects; some would put actors behind the scenes to dub in the dialogue. The point, according to Musser, is that there were many programs on the particular subject but no two programs were the same. Musser explained that, in this sense, the exhibitor was very much the creator. The notion of authorship lay with the exhibitor, not with the film producer. The dominance over creative control lay with the exhibitor.

Musser noted that the shift in creative control and responsibility to the production companies took place shortly after this time of the 1890's. The shift was really beginning to develop by 1901-02. Musser pointed out that, by 1903, the producer had by and large taken control over the editing

process. He cited the example of "The Great Train Robbery" as reflecting the producer having more editorial control than had been the case in the past, although the exhibitor still maintained some control at this point. Musser observed that there was still a good degree of variety in the way in which a film was received. He cited "Daniel Boone" as an example of such variety. In many cases, the film was shown with a narrative lecture, while in other cases, the exhibitor did not show the film with such a narrative lecture. He pointed out that there was still a general lack of standardization, even though the trend had begun to give editorial control to the production company.

The move toward standardized exhibition process, according to Musser, happened full force in the wake of the Nickelodeon era. He claimed that by 1910-11, the standardization process was very much in place with one reel films, but it took until about 1915 to happen with feature films. Musser pointed out that the shift in creative responsibilities was a process. In this process, the shift was toward a situation in which creative responsibilities were shared between producer and exhibitor. Whereas initially the exhibitor often had claims to authorship, eventually it was the film company that had claims to authorship. Musser explained that the process continued to the point where directors, and even stars, made claims to authorship which superseded those of the production company itself in some cases. He noted that there were also cases with overlapping authorship.

Musser's explained his own interest as tracing this shift in creative control and its centralization in the production company. He argued that the centralization is not much talked about and, further, that this phenomenon is essential to understanding the specialization of division of labor, a development in the studio system which is taken for granted. Musser noted that the production process in the early 1900's was done on a much more intimate scale, in which key people had many different roles. This changed over time. Musser noted that the way in which the specialization and the division of labor is oftentimes explained in the following way: you would start out with the cameraman, who was also the producer, the editor, the maker of the film. Musser noted that, for a long time, he subscribed to this interpretation. He explained, however, that his research gradually showed many examples of a kind of collaborative method of production, in which a stage director would work in tandem with a cameraman. Musser described this kind of partnership as having as its model the kind of partnership that was typical of a kind of business establishment. He noted that, very often, one person came out of the theater and had experience in directing actors; the other person usually came out of photography and cinematography.

Musser proposed that the transformation of production shouldn't be understood in terms of a transformation from something that's simple to something that's more complex. Rather, it was a change from something that already was complex to something that was not only more complex but was fundamentally different. He described the new situation as a sort of horizontal relationship, one of a basic, fundamental equality between the stage director and the cameraman; in this situation, the cameraman actually works for a director or, eventually, for a producer. Musser noted that this new situation began to emerge around 1907-08; at the moment when there is a much greater standardization of exhibition of one reel films, there is also occurring a hierarchicalization in the form of a new corporate structure in motion picture production.

Musser noted that his interpretation of the process of standardization differs from many conventional approaches. Musser elaborated on conventional schema: for the camera system, the cameraman supposedly did everything. From the cameraman system, the director system becomes dominant around 1909. Then comes the director unit system, which is a company of more than unit producing films simultaneously, each with its own director. Musser noted that, because costs become increasingly exorbitant, the conventional view argues that this leads to the producer system.

According to Musser, what really happened was something other than what is described in most conventional views of standardization. He noted that what oftentimes happened was that there was movement from one production unit to two and three units. When this happened, there would be two units working on a collaborative basis. Musser noted that this collaboration began to produce problems of accountability and coordination. The upshot was that there emerged a sort of head producer who took charge of what became different director units. Musser explained that the breakdown of the

collaborative system was the result of a multi-unit production system. He observed that multiple units required a new level hierarchy of accountability. Musser noted that, in this new corporate structure, it wouldn't be desirable to fire the whole unit. Rather, the aim would be to determine where different responsibilities lay. Musser summarized this as a reorganization in the film industry.

Musser claimed that understanding the dynamic quality of cinema, in terms of the rapid changes between the 1890's and the time when the studio system was in place around 1917, must begin with this process of centralization of control. He noted that the process was not completed until about the late 1920's and sound on film. Musser argued that, only with sound on film, did there emerge a situation in which the production company has complete control over all of the elements of the audio-visual cinema experience.

Musser argued that, in order to get the full scope of that centralization process, it would be necessary to go back at least until the 1850's. He pointed out that, at that time, it would be clear how much control the exhibitor had in terms of screen presentation. Musser cited the 1930's as the end point of the shift toward the centralization of control. He explained that the dynamic of centralization of control intersects with the trend toward specialization and the division of labor along more complicated lines than are normally acknowledged. Musser pointed out that, further, that the intersection of those dynamics also converge with the dynamic technological transformation and the growth of new technology in cinema.

Musser explained that these three trends play off each other and force the production companies to continually find new ways of organizing work. As they are finding new ways of organizing work, they are finding new ways of representing things on the screen. Musser closed by noting that he has concentrated particularly on this latter intersection. He commented that, in the future, he hopes to explore further the possible ways of looking at relationships between changing modes of production and representation.

The next speaker was Dr. Thomas Schatz, Department of Radio, Television and Film, at the University of Texas. Thorburn noted that Schatz also is doing pathbreaking work in film and communications. Thorburn noted that they share many ideas on the relationship between the development of early television and the history of the movies. He also noted that Schatz is conducting a profound and continuing exploration into the interaction between dramatic and representational forms, as well as the economic and corporate structures which lie behind and shape these forms. According to Thorburn, Schatz's most recent book was one of the first to probe really deeply and centrally into the corporate machinations of Hollywood studios, in a way that he described as enormously informed about the conventional, aesthetic dimensions of movies. Thorburn noted that the real distinction of the book, The Genius of the System: Hollywood Filmmaking in the Studio Era, lies in its ability to talk about totally non-aesthetic questions in way that ultimately illuminates the aesthetic. Thorburn explained that the term "genius of the system" originates with work on the nature of American movies and the fact that their remarkability lay not with the individual directors but with that of the system. Schatz's book elaborates on this notion.

Schatz opened by commenting that there would be a good fit between his remarks and those of Musser. Schatz stated his view that today's lecture offered him an opportunity to come to terms with an idea that has been on his mind for over a year, since the time he wrote a piece for "Premier" on the year 1939. He noted that, one year ago in movie critiques and essays, there were frequent ruminations and meditations on 1939 as the greatest year in the history of Hollywood and as the moment of the full flowering of the Golden Age of Hollywood.

Schatz noted that his lecture today is an amalgam of various lectures and arguments he's written. He noted that he seeks to construct an argument that tries to explain the 1939 phenomenon beyond the kind of anecdotal treatment he did in the "Premier" piece, by digging beneath and behind what the year represented. In the process of examining the real meaning of 1939, he would spend a good deal of time examining corporate structure and behavior and the kind of larger economic and social conditions that certainly shaped the movie industry in the 1920's and 1930's. He also noted that

he would think a lot about the division of labor, particularly what he tends to talk about as the vertical division of labor - he explained this as the hierarchy of authority and relations of power, not only in relation to the New York office versus the factory in L.A., but particularly within the executive system that dominated the studio factories.

Schatz began with what he described as a commonplace assumption in American film history and theory: that we cannot treat the filmmaking process or films themselves as somehow separate from social, economic, industrial and technological conditions and practices; nor can we see filmmaking simply in terms of conflicts between artists and avaricious dehumanizing machinery, the machinery of the industry. Schatz reminded the audience of a quote from the landmark book The American Cinema: "The director would not be worth bothering with if he were not capable now and then of a sublimity of expression almost miraculously extracted from his money-oriented environment." Schatz commented that, although a nice piece of writing, the assertion doesn't hold up very well under scrutiny.

Schatz went on to state that, although the adolescent romanticism of the above views might be able to be dismissed, we can't ignore the nagging problem of film authorship and related questions of authority, particularly those of individual human agency. He noted that trying to make sense out of how human individuals make a difference within the system is, for him, one of the most interesting problems of the film, television, or any culture industry.

Schatz commented that a related problem, in terms of classical Hollywood and 1939 in particular, is how to identify and account for innovation and artistry change. To get at these questions, Schatz reiterated that he would focus on 1939 and Hollywood's Golden Age. Schatz read briefly from the opening remarks of his "Premier" essay:

"Fifty years ago this year, the American movie industry peaked. Hollywood had its best year ever then... with 'Gone With the Wind' and 'The Wizard of Oz.' But those two classics are only a sampling of a year-long output that by any standards is unmatched in Hollywood's annals. An accounting of Hollywood's achievements in that golden year would run to some fifty to sixty titles, but consider... 'Mr. Smith Goes to Washington,' 'Goodbye Mr. Chips,' 'Jessie James'... There have been entire decades in the intervening half century which could not match the 1939 output."

Schatz noted, however, that 1940 and 1941 produced some fairly impressive film lists, and he observed that this fact is part and parcel of the same kind of level of accomplishment that was reached around 1939. Clearly, 1939 was a remarkable period of achievement for American filmmakers, and many made important first films during that year (e.g. H.G. Wells, Hitchcock). Schatz went on to note, however, that this fact nonetheless begs several crucial questions, two in particular: first, what conditions at that time not only allowed for but enabled these filmmakers to reach that level of achievement; and second, why wasn't it reached earlier or sustained longer.

Schatz suggested that the most reasonable and provocative answers to these questions start with some notion of a classical period in American cinema. This notion comes out in quotes by some of the greatest film scholars. He cited the metaphor used by Andre Bazan, who wrote about 1939 as the time when film had arrived at the point that geographers refer to as the "equilibrium profile of a river." This is the ideal mathematical curve which results from the requisite amount of erosion; having reached this equilibrium profile, the river flows effortlessly from its source to its mouth without further deepening of its bed. But if any geographical movement occurs which raises the erosion level and modifies the height of the source, the water sets to work again, seeps into the surrounding land, borrows deeper. Schatz noted that he'd return to this metaphor later in his talk.

Schatz cited another quote which pointed to the notion of 1939 and a classical era in American film. From this passage, he cited the idea that by 1939, Hollywood filmmaking had acquired all the proper characteristics of a classical art. He went on to paraphrase,

"It seems proper to retain the term in English, since the principles which Hollywood claims as its

own rely on notions of decorum, proportion, formal harmony, respect for tradition, mimesis, self-effacing craftsmanship, and cool control of the perceiver's response...canons which critics in any medium usually call classical."

Schatz concluded with a final quote from an essay called "Film Theory Today." The quote notes that

"at the heart of every evocation of classical narrative lies a textbook assumption about the meaning of the term classical...The term implies maturity, wideness, perfect balance and ideal form...It refers to a text whose integrity and order provide assurance and comfort for the reader...Classical means harmony, unity, tradition, rule-governed craftsmanship, standardization and control. All three owe their definition of the classical, in large part, to the neo-classical, French literary theorists of the seventeenth century."

Schatz pointed out that all quotes argue strenuously for a notion of classical in formal terms, aesthetic terms, in terms of the conditions and conventions of narrative. He noted that this notion is intriguing, and demands that we think about narration and narrative in relation to economic, industrial, technological, and social conditions. In fact, he noted that the title of his book comes from this conception of classical. This vision argues that we think about the classical period in relation to the studio system. Schatz maintained that, to talk about the classical era and the studio period, is to see a certain kind of equivalence. He argued that however we might see manifestations of this classical period, in terms of the quality of certain films, ultimately it's related to a particular stage of industrial development.

Schatz turned to the development of the American film industry, with particular reference to the conditions of the mid-late 1930's. He noted that Musser's remarks formed a nice backdrop, with the conditions of the teens being the pre-history of the Hollywood studio system. Schatz pointed out that Musser's work suggests that we can even see the studio system developing long before the teens. He argued that, ultimately, the perception depends on exactly how the studio system is defined: whether it's defined in terms of a particular mode of production, factory based, centralized, or whether it is seen in relation to the larger economic processes involved in production, distribution, and exhibition, particularly in terms of vertical integration.

Schatz emphasized that, by the late teens, a number of fairly obvious developments had come to pass. Most of all, the feature film had been identified as the principle product in the movie business. By the feature film, he meant a dramatic narrative of a certain duration. Schatz observed that the codes and conventions of classical narration had been established as well by that time. According to Schatz, one of the most interesting arguments and strongest theoretical positions taken was what has come to be called the classical paradigm - this is the narrative model for Hollywood. He said that this model was in place by about 1917, and there is some fairly strong support for this viewpoint. He explained that what we continue to think of as the well-told, narrative film story hasn't diverted all that much from the model which was in place by 1917.

Schatz noted that the above observation raises another question which relates to when you see the studio system being born. Schatz observed that many people who study film make the rather simplistic assumption that the classical narrative model is a product of the studio system. He noted that there is convincing evidence that, in fact, the studio system was a product of the classical narrative. Schatz explained that, as the classical narrative paradigm became situated in the mid to late teens, the studio system necessarily developed as a way to systematically reproduce the model with a controlled degree of variation.

Schatz pointed out that, by the late teens, the star system had pretty well taken hold as a means of narrative autonomy and also as the most efficient marketing tool. In his view, the star system is very closely related to the early development of genre production in this country. Schatz explained that we can think about how centralized production has been developed in a number of different companies. He observed that, by 1917-1918, a number of companies were beginning to see the viability of vertical integration and economies of scale as a method of making money. He cited Paramount and First

National as particular examples of this.

Schatz claimed that, in his view, the studio system was born with vertical integration. He argued that the studio system comes of age, in effect, in the 1920's. He also pointed out what he sees as several very distinct phases in the development of the studio system. Schatz classified the teens as the pre-history of the studio era; the studio system came with vertical integration in the 1920's, a period which Schatz classified as one of rapid and rampant expansion of both the production facilities in Los Angeles and the theater facilities throughout the United States. Schatz noted that this was also the period of what we now think of as the primary industry powers. He observed that, by the late 1920's, the so-called Big Eight had gained control of the industry. Schatz observed that there was a studio overhaul in the management process throughout the 1920's.

According to Schatz, the first stage came to a close with sound. He argued that sound, for a number of reasons, consolidated power with the studios. Schatz explained that not until that time did the studios really have control over the product. Not until sound did the notion of the feature film take the shape which we now think of it as having. Schatz also pointed out that, with the coming of sound, there is the conversion of sound by the major players in Hollywood and New York; there is a convergence of a hugely expensive process that comes in the wake of an expensive, radical expansion to which many companies were unable to make the transition. Schatz stated that many of these companies went bankrupt in the late 1920's, even before the Depression. Schatz argued that, with the Depression, there was another relatively distinct phase in studio system development from 1928 to 1932. In his view, 1928 was the period in which the industry at large converted to sound, with massive investments required. With the first stages of the Depression in 1929-30, there was a considerable consolidation of power. Schatz noted that one of the most interesting and intense boom-bust cycles in the history of the industry was that from 1928 to 1931-32. He called the survivors in 1932 the integrated majors or the five countries which actually had integrated production, distribution, and exhibition. Schatz named these companies as Paramount, MGM, Fox, Warners, and RKO. He cited the other survivors as the two non-integrated majors, those companies which had decided not to develop theater chains but had their own distribution as well as production companies - Columbia and Universal. Schatz cited United Artists as the final survivor, and characterized them as essentially a releasing company for the major independents.

Schatz noted that the reason the Big Eight is still recognized today is because these were the companies that absolutely controlled film distribution in the United States. He observed that, while there were other companies that were involved in aspects of production and exhibition, these were the companies that controlled distribution and, in that way, retained then and now a remarkable amount of control over the movie industry. Schatz discussed the early Depression as a period when the individual studios began to develop personalities. He explained that the demand to economize the production process led the studios to rely more and more on their own resources and, in the process, began to develop very distinctive star genre formulations, very distinctive styles. He described this period as the time when the central producer system began to take hold.

Schatz then turned to consider the vertical division of labor and the hierarchy of power and authority in the studio system as it developed. He commented that the direction of capital came from New York, from the home office in New York. Schatz pointed out that, particularly for the studios that were integrated in home theater chains, the investment in real estate represented much more than the investment in movie making. Real estate investment means land in Los Angeles and production facilities, as well as in the actual theaters. He described this as a period when the first run market was crucial to the movie business. Schatz described the first run market as those theaters located in major metropolitan areas and holding three thousand to five thousand viewers at a time. He explained that these represented only about one sixth of the theaters in the United States, but they represented about one third of the theater seats and two thirds of the revenues. So this meant that a small fraction of the theaters in the United States were generating the lion's share of the revenues.

Schatz also noted that the integrated majors had invested much of their capital in the first run market. He explained that the integrated studios recognized that the first run market was where the

action was in terms of revenues generated. He also cited the first run market as the area where cooperation amongst the integrated studios was greatest. Schatz explained that different studios dominated different first run markets around the United States and that they shared each other's moves. According to Schatz, the practices of block booking and blind bidding became rampant in the early 1930's. He noted, however, that there was no block booking in first run market theaters; these theaters showed top of the line, prestige, A class pictures only and, generally speaking, they would run an A class picture as long as it did good pictures. Schatz summarized that the first run market was very cooperative in terms of the integrated studios but, at the same time, it was very competitive.

Distribution, exhibition, and direction of capital were controlled out of the New York office, according to Schatz. In terms of executive hierarchy and power in the industry, New York wielded much power. Schatz noted that, invariably, the officers in Los Angeles were vice presidents of the corporations - he cited Columbia as an interesting exception to this general rule. He presented a general model in which New York determined the budget, usually in some kind of interaction with the vice president in charge of the studio. Schatz articulated a hierarchy involving four principle figures: the top executive in New York, the vice president in charge of the studio in Los Angeles, the vice president in charge of production (the supervisor of production), and the producers.

Schatz gave an example of the above hierarchical structure. In the case of Warner Brothers: Harry Warner ran the home office in New York; Jack Warner was the vice president in charge of the studio; and under him was Daryl Zanuck until 1933 and then Hal Wallace. He noted that the crucial figure in this setup, as in all the other integrated majors structured this way, was the vice president in charge of production. According to Schatz, this vice president acted as a kind of linchpin in the system and balanced the demands of capitalization with the demands of production. He explained that the vice president coordinated the production process.

Schatz commented on the fact that, in addition to the vertical chain of command, there was also a horizontal assembly line process or the division of labor in terms of an assembly line process. He noted that, with the vertical chain of command, we think of directors. Schatz explained that, under the central producer system, with the central producer being the individual who coordinates production, creates a season schedule and a program of pictures, there is also a hierarchy of authority that is not at all involved in making pictures. He remarked that, in his book, he uses a lot of case studies to consider the role of this central producer. But in terms of the actual production process and the day to day operations, he noted that we must think about the process that is coordinated in terms of individual pictures by the supervisor and associate producer. In terms of the creative process, which was a horizontal chain, Schatz explained that there was domination by a screen writer in pre-production and by a director during actual shooting and by a producer in post-production.

In considering the development of the horizontal chain, Schatz explained it as a kind of circulation of product. In talking about the hierarchy of authority, he noted that it is important to think about a kind of negotiation that goes on between the CEO and the head of the studio, in terms of establishing an annual budget; he also pointed out that there was also a kind of negotiation going on between the head of the studio and the head of production, in terms of translating that budget into an actual program of pictures. Finally, in terms of the program of pictures, Schatz noted that this phase led us to consider the actual production process and the products coming out and going back to New York. Schatz characterized this process as a kind of inverse proportion between economic control and creative control, by the time the process reaches above the line personnel (Schatz defined them as producers, directors, writers, creators of the story property, director of photography). He noted that the process was a market-driven, industrial process. The people who make the money are acutely aware of the differentiation of product and the pressures of competition.

Turning to the 1930's period, Schatz mentioned several important developments which seemed to have a great deal to do with the disintegration of the hierarchy of authority outlined above. In his view, the most important month in the history of movies was March 1933. March 6, 1933 was the first day of the week-long bank holiday declared by Franklin Delano Roosevelt. Schatz pointed out that this was the day that radical budget cuts went into effect in Hollywood and that radical salary cuts went into

effect for anyone earning more than twenty-five dollars a week (with the exception of executives). Schatz noted that the NPPA had met the day before and had arrived at a reaffirmation of objectives which had become the basis for the production code. He emphasized that there was a tremendous amount of concern in early 1933, regarding potential loss of audience, dwindling attendance in movie theaters, etc. Schatz cited this date as the first step in the national recovery administration, since the bank holiday set in motion FDR's national recovery program.

Schatz explained that practices which had been done in collusion and behind the scenes were now openly sanctioned by the government. He noted that, basically, the NRA reflected the Roosevelt administration's willingness to sanction certain types of monopoly activity, in order to enable certain important U.S. industries to survive the Depression. He also held that the NRA enabled industries to write their own codes of fair practices. Schatz explained that for the NPPA, this meant codification of block booking, blind bidding, distribution practices, etc. Simultaneously, there occurred a remarkable consolidation of power in terms of the studio.

Schatz discussed the Wagner Act, which mandated a certain type of labor-management negotiation, and allowed that labor could organize. Schatz noted that, interestingly for the movie industry's development, labor organizing started at the lowest point on the hierarchical totem pole and gradually worked its way up the power structure. He explained that the labor organization of writers and actors had been fulminating since the 1908-12 period, and until the 1930's, the management powers in New York and Los Angeles had successfully held it off. Schatz cited the creation of the Motion Picture Academy in 1927 as the most important development in this regard; this prevented the development of unionization of actors at a particularly important moment. He explained that it wasn't until the Depression and the NRA that the guilds (writers, actors, directors) were finally formed. Schatz pointed out that, at this juncture, the linchpin person had to make a decision by siding either with labor or with management. He argued that one of the reasons that 1933 was such an interesting time was because of the varying reactions of those linchpin vice presidents.

According to Schatz, what occurred during the period was a sharper division between the direction of capital and production, particularly as the creative central producers (e.g. Zanuck, Selznick) either became independent producers or sided with management. An additional interesting development during the period, according to Schatz, was that the first run market heated up. The NRA, in terms of the movie business, was extremely successful. The movie industry was consolidated by 1935 (when the NRA itself was found unconstitutional). In terms of the guilds, more and more power was being assumed by above the line personnel - e.g. stars, writers, directors, and producers.

Schatz described the movie business by this time as having created a monopoly, or at least a mature oligopoly, in the studios. He cited 1938 as the year when the Justice Department went after the studio system. A suit was filed in 1938, resulting in a series of consent decrees which prohibited block booking in blocks of more than five and which prohibited blind bidding. According to Schatz, these changes made an already competitive market even more competitive. He noted that, at the same, in 1939, FDR began to overhaul the tax codes. Schatz explained that these changes had an enormous impact on the movie industry, most particularly in that the top paid personnel in Hollywood were losing up to 90% of their income in taxes - unless they could come up with a different way of accounting for their income. Schatz called this development the birth of capital gains as a strategy for avoiding heavy income taxes. He explained that the result of this development was an increasing number of top personnel going free lance and leaving the major studios. By 1939, there was a much more competitive market, an increasingly more powerful coterie of top talent in Hollywood, and increase in the number of individuals who went free lance.

Schatz summed up these changes as signifying important changes in the overall corporate structure and behavior in Hollywood in 1939. He argued that, in many ways, this was the beginning of the disintegration of the studio system, with the 1948 Paramount Decree as a key date. There were unprecedented risks being taken at this time in the movie business, the market was incomparably competitive, and the outcome was that many of those unprecedented risks began to pay off in the form of unprecedented revenues.

Question and Answer

The first questioner noted that one implication of Schatz's remarks was that the studio system had no genius; only when the system began to break down and creative space began to open up that important work was done. He asked for comment on this observation.

Schatz commented that this is not too far from the truth. He noted that, upon closer inspection of the movie business, it becomes clear that the industry continued to change regularly over time, so it makes it difficult to classify the business into periods of sustained stability. He noted, however, that one can find certain key changes that began to affect corporate behavior and the overall economic structure of the industry. Schatz commented that he uses so many case studies in his book in order to allow for reaching some set of generalizations about the industry. He argued that, without question, one can talk about the New Hollywood and the television industry in terms of hierarchical organizations of power; but he also argued that there is still a system there, albeit less efficient than the old studio system.

The next questioner asked about additional factors accounting for the shift in capitalization and organization in the movie industry.

Schatz observed that we tend to think of sound as a radical revolution, at least that was the understanding until the last six or seven years. He noted, however, that it has become more and more evident that sound was in many ways the kind of technological development that really did consolidate the production system. He supported the need to think about the film experience as a varied one until sound changed so much. He noted that the introduction of sound was the phase at which the relationship between New York and Los Angeles became a lot more complicated (e.g. the mass migration of theater people to Los Angeles), and the phase at which there was less control over all aspects of production by any one person.

The next questioner asked for clarification on the terms block booking and blind bidding. He also asked for elaboration on the importance of the capital gains tax mechanisms for the movie industry, in terms of the changes in stars' contracts, etc.

Schatz defined block booking as follows: for example, Warner Brothers would enter into a relationship with a non-affiliated theater chain or owner by blocking films (usually in groups of fifty); this meant that, in exchange for ten blockbuster films, the theater owner had to accept other films in a whole block or group, wherein the A class film made the whole block profitable. In terms of the capital gains tax, Schatz explained that Selznick's lawyers claim that they came up with the strategy. He emphasized that this development corresponds with a period in which it was exceptional for a movie to gross \$5 million. Selznick had made so much money from two films, "Gone With the Wind" and "Rebecca," that he had to liquidate his company in order to avoid being taxed out of existence. He and other stockholders sell each other portions of the company so that they could be taxed at 25% rather than 90%. Schatz explained that the idea of capital gains is to have a piece of the action in a single company, usually through income from a single big picture, without having to pay enormous taxes due to garnering extraordinary amounts of income from all of the company's big hits.

Commenting on the next question, Schatz noted that it's relatively difficult to define capitalism. But, in terms of the general understanding of the term, Schatz observed that capitalism has undergone some fairly radical transformations for a variety of reasons - particularly the World Wars, the Depression, and the advanced stages of the industrial revolution. He noted that the movie industry has some interesting ties with nineteenth forms of expression, and it would be a mistake not to see the industry as a kind of outgrowth of certain types of nineteenth century cultural activities and practices. Schatz went on to note that we can and cannot think about the New Hollywood and television in relation to the classical narration and classical Hollywood. He commented that, however we may define the period in the 1920's that led, first, to the stock market collapse and the Depression and, then, the process whereby FDR and his administration dealt with those events, it is impossible to consider the development of the studio system and the business in isolation from these events. He noted that there

are several important issues that need consideration - for example, what role does competition play in terms of the product that is produced, what sort of product differentiation occurs, etc.