

PUBLIC FINANCING OF MOVIES AND RENT SEEKING:
THE CASE OF ITALY

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In the EEC movies are entitled to public aid as cultural products expressing the cultural identity of its countries . This justification spread rent seeking pressures and practices also in Italy where a “an iron triangle” made by the Ministry of Culture, the cultural community of the performing arts and the film industry gave origin to a generous financing of Italian movies by FUS, a Fund for the Performing Arts .FUS however, gave deluding results both as for the promotion of Italian films and as for that of products with artistic quality . Given the following reduction of FUS’ resources, the “iron triangle since 2004 , intervened also with tax credits for the investment in Italian movies . The resulting more competitive rent seeking process has given positive results in the promotion Italian films regardless their quality. Meanwhile a new kind of competitive rent seeking did develop, under a different triangle, between the film industry ,the Regions and municipalities via ad hoc Film Commission offering subsidies in kind and in money for the production of movies in their territory to valorize local tourism and typical products. This new ways of financing the movies, has been mostly efficient for its objectives , because of its competitive setting both on the supply and demand side . This experience offers new reflection on Gordon Tullock ’s efficient rent seeking under competition.

INTRODUCTION GENERAL OUTLINE OF THE PAPER

In this paper we deal with Gordon Tullock’s efficient rent seeking seminal concept in the interpretation of G. Brady (2005) as for the Italian case of public financing of movies. Tullock , in his first paper on rent seeking, devoted to the welfare implication of tariffs, monopolies and theft (Tullock 1967) made a basic distinction between a competitive and an inherently monopolistic process of acquisition of public privileges in the area of trade protection, of public utilities regulation and other form of regulation. In the second case, the rent seekers may be able to capture the (entire) consumer surplus of the monopolistic position, in the first , they may loose it through the costs of the competition to obtain the privileged position this originating a negative sum game (Tullock 1982). Indeed if the monopolistic situation remains, as for the public sector supply , the consumers loose a share of their surplus in favor of the monopolist, while the rent seekers have wasted the expected surplus in the competition to obtain it . Still one may say that the rent seeking

process is efficient because there is no appropriation of surplus by the winners in the competition for the public benefit (Tullock 1980). However, as has been noted by Brady (2005), in this paper, “Tullock’s insight shifted the focus of the analysis away from the calculation of the dead weight loss measured by the foregone consumer surplus to the less easily calculable area of lost opportunities for society resulting from activities of those who seek and defend monopolistic advantages”. It seems to us that in this insight may be extended to the case in which rent seeking is directed to obtain a public financing of the private supply of supposedly (quasi) public goods and particularly goods and activities that are assumed to give external economies or appear as merit goods or cause a “desirable” social redistribution¹: as in the case of the promotion the protection of environment, of the promotion of arts and culture, of the development of less developed regions, of the promotion of the cooperative movements, of the development of the property of the house by the families². Rent seeking may be defined as efficient from the point of view of the supporters of these causes, if the process of competition among the seekers of the public benefits gives origin to results efficient for the considered objectives. Thus one may distinguish between a weak concept of efficient rent seeking, referring to the fact that the fiscal rent is consumed in the process of competing for it and a strong concept of efficient rent seeking referring to the fact that the competitive rent seeking produces efficient results from the point of view of the desired objectives as normally market competition does³. One, obviously, may question these objectives. Therefore efficient rent seeking may be still a negative sum game from the point of view of the preferences of the generality of the taxpayers. Beside that, even if the objective is approved, the fact that the process of seeking the rents by the potential private providers of these (quasi) public goods, being adequately competitive, is efficient does not imply that the considered public instruments chosen are the best (or the least inefficient) among those conceivable.

¹ Gordon Tullock in his paper of 1971 on the “charity by the uncharitable” has introduced a new class of “improper public goods”, that originate from “cognitive dissonance”: a mental process of individuals that derive a feeling of being charitable without actually making an individual sacrifice by advocating the use of the political system to redistribute income through taxes and government expenditures of whom the cost is mostly borne by the generality of taxpayers, inclusive of those who would not pay for them. Similarly individuals may advocate public interventions to defend the environment (Brady 2005) or the national cultural business to feel that they make the right choices even if this redistribution of resources is mostly done at expense of taxpayers who do not share this view.

² We have dealt with the rent seeking in some of these areas in previous papers. See Forte F. and M. Mantovani (2009), and Forte, F., C. Magazzino and M. Mantovani (2011), dealing respectively with rent seeking for cooperatives and for the promotion of cultural goods as touristic attractors in the regional policies of growth.

³ Inefficient rent seeking in the strong sense therefore shall be characterized both by inefficiency from the point of view of the desired public objectives and by appropriation of rents by the strategic behavior of the rent seekers. Likely the actual choice of the public instruments to perform the private supply of quasi public goods shall tend to be of this kind, because of the pressure of the interest groups. See for instance Brady (2011).

Public aid to movies as cultural products has been allowed by the European Union since many decades on the basis of a cultural exception to the prohibition of state aids to economic activities, to defend its “cultural identity”, a concept that in its vagueness, allows much rent seeking⁴. In Italy the systematic aid to the Italian movies started at the mid eighty of the other century, to react to the decline of the market of the Italian films under the competition of the mass culture brought by the diffusion of television.

The first section analyzes the European Union principles relating to the cultural exception as applied to the movies industry and the decline of the Italian movies industry under the competition of the new media of the mass culture

The second section analyzes the state aid to the movies in Italy by the Fund for the Performing Arts (FUS) from 1985 to 2010 showing its failures both from the point of view of the European objectives of protecting the cultural identity by the diffusion of the Italian movies and from that of promoting in the public movies culturally qualified.

The third section considers two other sources of public aid experienced in Italy more oriented to the market - tax credits and regional and local aid to the production of movies valorizing their cultural and environmental values and local ways of life.

Product placement is also briefly analyzed here to show that the adoption of its techniques could improve substantially these local policies of “cine-tourism,” reducing the occasions of wasteful rent seeking. Conclusions follow in the last section.

⁴ A. Mass-Coltell (1999) observes that there are two possible interpretation of this principle :the protection of the production of the national culture and the protection of national cultural products. Only the first actually may be justifiable to preserve the national cultural identity as a merit good under the limited rationality principle according to which the demand for goods of qualified knowledge increase with their knowledge See Forte and Mantovani (200), Part III, Chapter I, §4 and Forte (2011), Chapter II, Part II, §8-9 , in general. Specifically for this topic Mc Cain (1979) and Cameron (1999). The national cultural products that imitate other cultures may generate a result contrary to that desired of preserving the identity of the national culture . But the drift from the protection of the national culture to the protection of the national cultural products may be justified with the difficulty of distinguish them in practice and with the more subtle (and correlated) argument that even in the national cultural products that imitate the foreigners there is a component of domestic culture. However , A. Mass-Coltell misses the main point: i.e. the drift from the notion of national identity as a cultural value to the idea that any product of the performing arts has a cultural intrinsic value, from the national identity point of view: so that any movie of mere entertainment may be considered a cultural product because carries “national identity” elements merely because made in a given nation or by persons of a given nation. Thus the principle that cultivation of the tastes of “national identity “ in the Mc Cain (1979) sense promotes culture may lead to the paradox that any low quality movie is automatically a cultural product merely because performed in the given nation or by persons of that nation. To limit these paradoxical results the European Commission has stated that the definition of cultural goods to allow them to enjoy of state aid, according to the European Principles, competes to the member states. See Broche J., O. Chatterjee, I Orssich and N. Tosics (European Commission)(2007) . See note 5

SECTION I

THE EUROPEAN CULTURAL EXCEPTION AND ORIGIN OF THE AID TO ITALIAN MOVIES

1. Movies industry is object of public aid in the countries of the European Union where public aid to enterprise is generally forbidden, mainly because movies are considered, as such, cultural products (see Ridler, M. B [1986], Mass-Coltell A. [1999], Caves, R. [2000], Chisholm, D. [2003], [De Vany, A. (2006)]. And according to the principles of the European Treaty, an exception is allowed to the cultural goods, as for the general veto to public aid to economic activities. Indeed according to Article 107, §.2 of the present text of the European Treaty, may be considered compatible with the common market “ d) aid to promote culture and heritage conservation where such aid does not affect trading competition in the Union contrary to the common interest.” According to the same article under c) aid may be allowed to promote tourism and other economic activities in less developed areas of the EU countries if does not affect trading competition in the Union contrary to common interest. In the movies sector, as well as in those of the other cultural activities under the French pressure, an “exception culturelle” was erected against the threats from America’s mass entertainment, “fast culture” with additional connotations of defense from “excessive cultural capitalism” (LYOMBE (2010)). In many countries this sentiment generated a cognitive dissonance. i.e. a post-decisional discomfort owing to the new information about the risk of loosing the national cultural identity that made many individual feel that their values and beliefs had been violated and action should undertaken at the collective level. Thus a regime of incipient rent seeking was borne (Rowley, Tollison and Tullock, 1988 and Brady 1993). Public aid to movies spread from France ⁵ almost every were in Europe on the basis of principle of the cultural diversity (see European Audiovisual Observatory [1998], Iris Plus [2001], Deleau [2008], Talavera Milla [2010 a], Talevera Milla [2010 b], Talavera Milla [2012 a], Talavera Milla [2012 b]). In 1993, the European Union, under this French pressure, has introduced in the international free trade negotiations of the Uruguay Round the clause of protection of national diversity. And the criteria introduced by the European Commission in 2001 to limit the state aid to movies industry, were quite permissive ⁶. In 2005 the

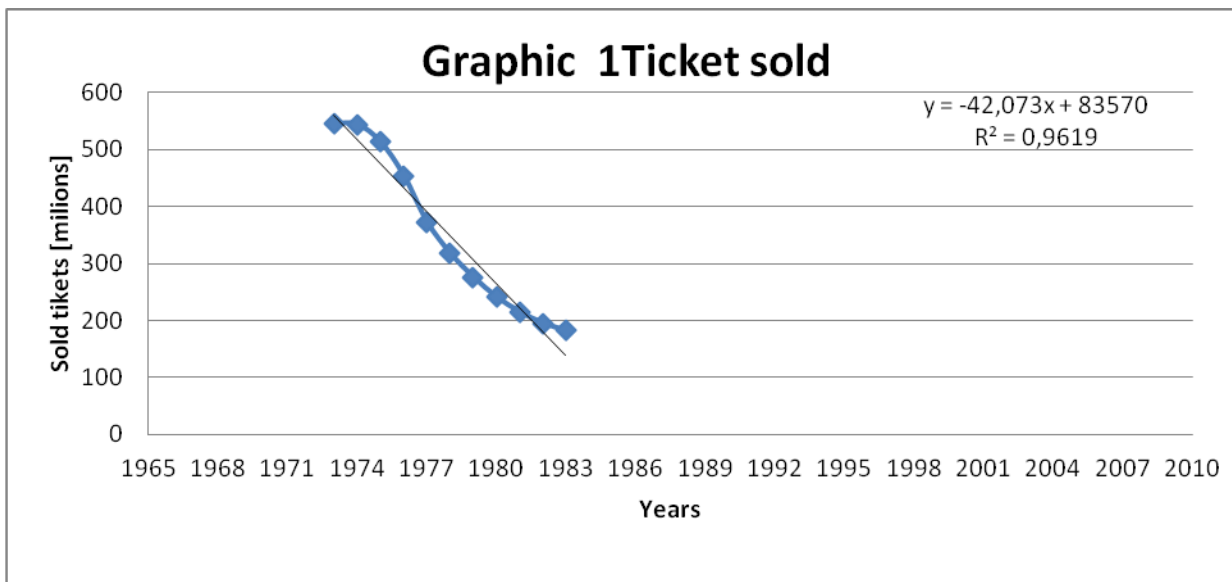
⁵ France has protected her movies industry since long time, by subsidies and quotas against the US competition under the principle of the “exception culturelle” as an identity notion .Jacques Rigaud, (1995).

⁶ See EU Commission (2001), “Communication of 26 September 2001 on certain legal aspects relating to cinematographic and other audiovisual works” “1) The aid is directed to a cultural product. Each Member State must ensure that the content of the aided production is cultural according to verifiable national criteria (in compliance with the application of the subsidiarity principle).(2) The producer must be free to spend at least 20% of the film budget in other Member States without suffering any reduction in the aid provided for under the scheme .(3) Aid intensity must in principle be limited to 50% of the production budget with a view to stimulating normal commercial initiatives inherent in a market economy and avoiding a bidding contest between Member States.

countries member of Unesco have subscribed a Convention on Protection and Promotion of Cultural Diversity .

Five main ways of giving public aid to movies at the central government level, as well as at regional an local level did develop: 1)government grants; 2) government credits ; 3) equity finance, 4) tax benefits, 4) facilities and aid in kind . So that an area of rich rent seeking has found its consolidated legitimacy, under the combination between culture as a merit good and culture as an ethnological concept under the controvertible principle that the different “cultures” can best preserved by their insulation.

In Italy, the policy of aid to movies became important in the mid ‘80 because of the crisis of the Italian movies. As one can see from Graphic 1 (Table 1 Appendix) in the ’73-'83 there has been steep decrease of ticket sold in the Italian cinemas



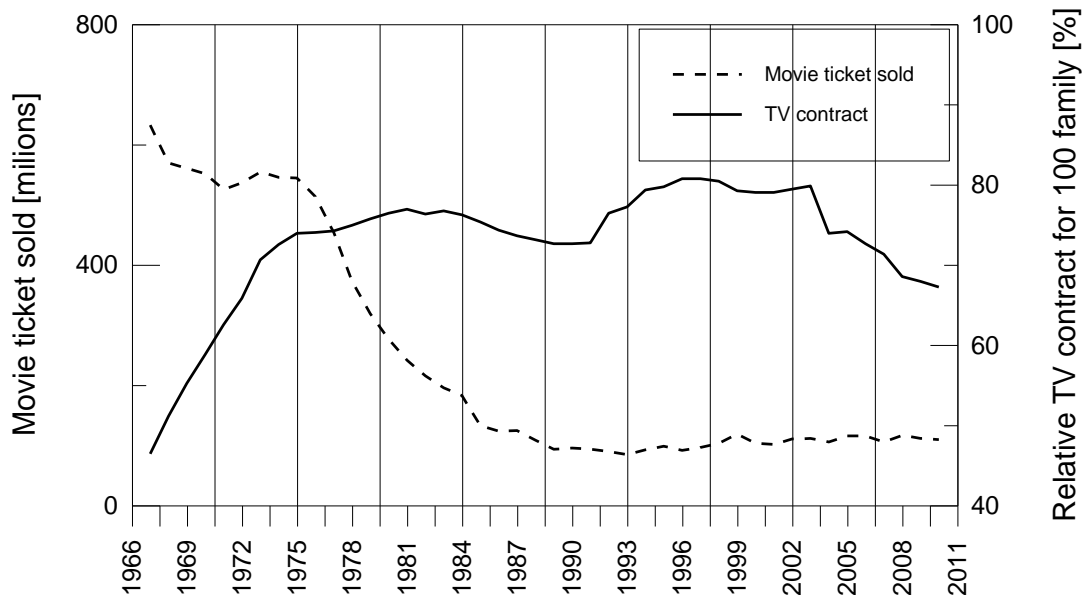
Source: ISTAT

This phenomenon may be explained by the competition of the new mass culture of which the diffusion of TV was the most representative expression ,as shown by Graphic 2 (table 2 appendix)..

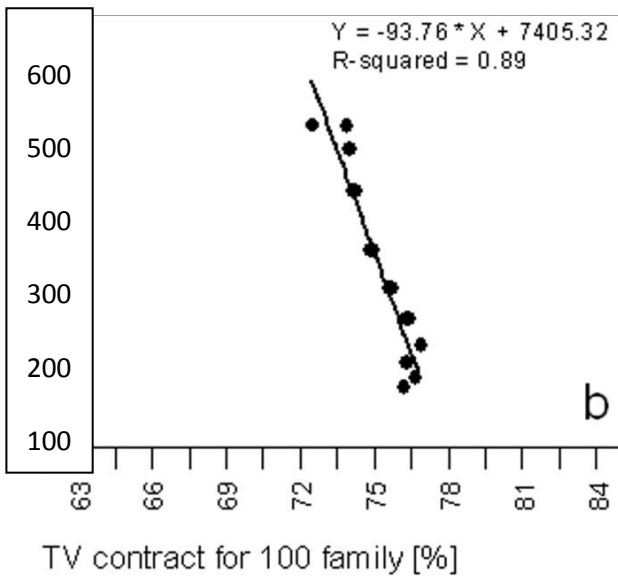
As one can see from Graphic 2 there is an inverse relation between the diffusion of TV and the reduction of attendance to the Italian cinemas as measured by the tickets sold.

Difficult and low budget films are excluded from this limit. The Commission considers that, under the subsidiarity principle, it is up to each Member State to establish a definition of difficult and low budget film according to national parameters.(4) Aid supplements for specific filmmaking activities (e.g. post-production) are not allowed in order to ensure that the aid has a neutral incentive effect and consequently that the protection/attraction of those specific activities in/to the Member State granting the aid is avoided.

Graphic 2



As Graphic 3 shows there is a very strong correlation ($R^2=0,89$), for the period 73-83 between the increase of share of families with TV and the reduction of ticket sold in the Italian cinemas. For each percentage point of increase TV owners families we have a decrease of the ticket sold of 0,89.



While in the sixty and until mid seventy, the market share for the new movies in the Italian cinemas had been generally between 40- 50% , the market share dropped to a level around 30% at the beginning of the eighty (table 3 appendix) . While the number of Italian movies produced until the mid seventy remained in a range of 281-216 films per year, at the end of the decade it decreased below 200 with a downward trend. And the

cultural pressure to protect it in the '80 increased. Actually, the entire sector of performing arts had dramatically lost grounds due to the new mass culture trend.⁷ The alarm of the cultural elites at the mid '85, was as a precious ally to the movies industry in forming an “iron triangle” with the new Ministry of Culture⁸ to claim public aid . Thus a special state fund FUS (Fondo Unico per lo Spettacolo= Unique Performing Arts Fund) was created in April 1985, under the Ministry of Culture, with an endowment determined every year by the budgetary law, to aid the Italian performing arts , with a special section for the movies⁹.

SECTION 2

THE BAD PERFORMANCE OF STATE SUBSIDIES TO THE ITALIAN MOVIES

3. FUS ,according to the original Law of 1985, destined 25% of its funds to the movies subsector. From the '90 the Fund constantly diminished Initially this 25% was 150 billion lire, equivalent of €357 mln. an huge amount considering that the aggregate revenue of the Italian movies in 1985 was 153 billion lire (half of it ,on average, made in the first year on the screens) (table 4 appendix). In 1990 the fixed percentages for the various sectors were abolished . The movies, from then on, obtained an yearly percentage oscillating around 18% . The funds mostly are destined to finance the new feature films on the basis of the project presented to the ministerial committee of experts. .A section is reserved to debutants new and producers. Only a minor share is reserved to short films, films festivals, prizes for the best movies . The share of new movies that obtain the funds of FUS on the total new movies produced per year has been generally very large, often above 50% of the total (Table 4, Appendix).

The financial aid to the production of new movies, originally, was mostly given as a loan at very low interest rate. But the sum received had to be reimbursed only if there were returns net of production and only partially. Furthermore often the company producing the movie was dissolved after the production and no sanction was given for the violation of the obligations of reimbursement. Thus only a small share of the loans was recovered. Subsequently a variety of grants was added to the loans. The criteria for the assignment of the aid underwent continuous changes in the attempt of improving its effectiveness. Broadly speaking, the parameters considered relevant beside the cultural quality of the movies, where the coherence and articulation of the subject, the reputation of

⁷ As one can see from Table 4 appendix, the expenditure of the families for this sector which in 1966 was 0,81 of GDP, 1,25% of consumption and 16,14% of the expenditures for recreational and cultural goods , after 15 years , in 1980 had diminished to 0,39% of GDP, to 0,62% of consumption and to 8,07% of the recreational and cultural goods, with percentage declines of 51,9% on GDP, of 50,4 % on consumption and of 50% as for the recreational and cultural goods.

⁸ On the notion of “iron triangle” in rent seeking see Brady (1993) that applies it to the environment protection.

⁹ Law n.163 of April 30 1985 promoted by the Minister of the cultural goods and activities Nino Gullotti (DC), under Craxi Government.

the director and artists and their technological and organization characters. In 1997 the Committees for the assignment of the funds was reformed¹⁰. A major change was done in 2004 with the introduction of a contribution on the movies' revenues, to boost the production of market oriented quality-movies¹¹.

The revenue-market share of the Italian movies on the aggregate revenue in the Italian cinemas that was 33,12 % in 1984 went down to 30,06% in 1985 first year of the FUS then -from 1986 to 2010 oscillated in the range of 20,65 % - 27,84% , with few exceptions two exceptions¹² (see Table 5 in the Appendix). Meanwhile FUS funds for movies had declined from 0,026% of GDP to 0,005 of GDP in 2010 . Other public finance aids to movies were adopted from the end of the '90 on (table 6 appendix).

The trend of the market share of the Italian movies in terms of new movies produced on the new movies in the Italian cinemas, after the FUS, is similar to that of the revenue market share, but better in the last decade. The share of new Italian movies on new movies that was 31,8% before 1985, went down to an average level of 25,8% in the first 5 years of the FUS. Declined to 22,8% in 1990. Recovered to 23,1% in 1996. Subsequently increased in spite of the decline of the FUS aid and in 1999 was 28,4%. Then it ranged between a minimum level of 27,91 in 2000 and a maximum level of 40,96% in 2008.

4. To assess whether the financing of FUS has been effective in arresting the decline of importance of the Italian movies- the main official objective of it, on the basis of the European doctrine- we shall consider the correlation between the diffusion (represented by the share of TV subscription on 1000 inhabitants) as proxy of the development of the new mass culture and 1) the number of movies produced, 2) the share of Italian movies on new movies and 3) the revenue market share of Italian movies on the revenue of all movies in the Italian cinemas. We shall test, by inserting a dummy in 1985, the year when FUS was introduced, whether there has been a change in the results of the regressions .

TABLE 1

¹⁰ In 2001 the criteria had to be accorded with the new rules set out by the European Commission See Council Resolution of 12 February 2001 "National Aid to the film and Audio Visual Industry and Commission communication of 26 September 2001 on certain legal aspects relating to cinematographic and other audiovisual works " and E. Psychogiopoulou, (2007)

¹¹ By Law January 22/01/2004 n. 28 d "Reform of rules for the matter of the cinematographic activities " promoted by the minister of Cultural Goods Giuliano Urbani under the first Center right Berlusconi Government.

¹² The two exception above this range were in 1987 when the share climbed to 33,15 % and 1997 when reached 31,9 % and two exception below were in 1993 when the share went down to 17% and in 2000 when it was 19,28%

Effects of TV subscriptions on the Production of New Italian Movies, on the Market Shares of the Italian Movies in Terms of Number of New Movies and in Terms of Revenue. Before and after FUS

1)REG. NEW_ ITALIAN_ MOVIES TV_ SUBSCRIPTIONS _ON 1000INHAB FUS_ COST DUMMY

Number of obs = 44
 Prob > F = 0.0000
 R-squared = 0.7684

New_Italia~e	Coef.	P> t
TV_subscript.~b	-1.057964	0.000
FUS_costan~o	-.1148592	0.231
dummy_FUS_~e	12.01271	0.709
_cons	424.666	0.000

Here we can notice that the number of new Italian movie is explained (dependent variable) by the number of TV contract with a negative sign, meaning that when TV contracts increase we have a decrease of new Italian movies. FUS is not significant. R-squared is sufficiently high (0.77).

2)REG SHARE NEW ITALIAN MOVIES ON NEW MOVIES TV_ SUBSCRIPTIONS _ON1000INHAB FUS_ COST DUMMY

Number of obs = 44
 Prob > F = 0.0000
 R-squared = 0.7342

Share_Ital~s	Coef.	P> t
TV_Subscript.~b	-.168364	0.000
FUS_costan~o	-.056036	0.001
dummy_FUS_~e		0.006
_cons		

The share of new Italian movies is explained by the number of TV contracts and FUS with a negative sign, meaning that when TV contracts and FUS increase we have a decrease of the share of Italian movies. R-squared is sufficiently high (0.73).

3)REG REVENUE MARKET SHARE IT. MOVIES TV_ SUBSCRIPTIONS _ON1000INHAB FUS_ COST DUMMY

Number of obs = 44
 Prob > F = 0.0000
 R-squared = 0.8419

Revenue Market_Share	Coef.	P> t
TV_Subscript.~b	-.1381568	0.001
FUS_costan~o	-.0242221	0.243
dummy_fus_~e	-11.15706	0.114
_cons	81.08395	0.000

Market share revenue of new Italian movies is explained by the number of TV contracts with a negative sign, meaning that when TV contracts increase the revenue of Italian movies market share decrease. R-squared is high (0.84).

The regressions show that while there are significant correlations between the increase of TV subscription and the reduction of the number of new Italian movies and their market share in terms of movies produced on new movies as well with the market share in terms of revenue of the Italian movies on all movies, FUS had either no correlation (with the number of movies and the revenue market share of the Italian movies) or a negative correlation (with the share of Italian movies in terms of number of movies produced) . The objective of this fiscal measure of defending the Italian movies production as cultural expression of the “Italian identity “ clearly failed.

But FUS has been a failure also from the point of view of supporting the movies as for their intrinsic cultural content. A large share of the movies financed by the subsection of FUS assigned to the movies of particular cultural value has got low rates by the critic. And several of these were mere entertainment movies. The research on these aspects cannot be presented here. Here however we show that a disproportionately high percentage of the movies financed because of their peculiar cultural value did not enter in the circuit of the cinemas or disappeared after a very short period.

TABLE 2
Index of Failure of the FUS for Movies of Cultural Interest
(Revenue < 10,000 euro)

	I	II	III
Year	Number of Movies	Movies Without Return of <11.0000	Index Of Failure (II/I)
1994	18	4	22,22%
1995	34	7	20,58%
1996	38	9	23,68%
1997	42	13	30,55%
1998	44	9	20,45%
1999	38	10	26,31%
2000	24	5	20,83%
2001	39	8	20,51%
2002	51	15	29,41%
2003	45	15	33,33%
2004	37	25	67,56%

2005	35	23	65,71%
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SOURCE : Our elaboration on data given in L. AREZZO and G. MECUCCI (2007) , *Cinema.Profondo Rosso*, Milano, Libero-Free

We present here an index of failure, measuring the percentage of movies that did not enter in the cinemas or that had a revenue less than 11.000 euro, for the period between 1994 to 2005. The index ranges between 20,51% and 67,56%. The average is 29,29%.

SECTION 3

NEW WAYS OF FINANCING THE ITALIAN MOVIES WITH TAXPAYERS MONEY MORE MARKET ORIENTED

6. Following the new European trend of aiding movies via tax incentives (Deleau [2008] and Talavera Milla [2012] a Talavera Milla [2012 b])¹³, in Italy with the financial law for 2008 new fiscal incentives have been introduced¹⁴ for movies production and distribution. The benefits, were originally given as credits for the tax due (tax credit)¹⁵ and as reductions of the taxable basis (tax shelter)¹⁶. In the tax credits the benefit is more generous for the investors external to the movies industry i.e. is 40% of the tax due as against 15% for the investors internal to the movies business. The tax credit for external investors cannot exceed 1 million for each year, for the internal investors the limit is 3,5 million, but with the limit of 15% of the cost of each movie financed 80% of this amount must be spent on the Italian territory. The sum of the tax benefits cannot exceed the percentage of 49% of the cost¹⁷ of each movie financed and the external investors cannot get a share of it revenue greater than 70%. In the tax shelter the benefit was more generous for the investors internal to the movies business, which could get a full exemption of their profits if reinvested in movies production or distribution while external investors had a maximum exemption of 30% of the profits reinvested in the movies business. But the firms internal to the movies industry normally prefer to distribute their profits, rather than reinvest. Thus this tax benefit has been dropped in 2011 because scarcely utilized.

The new tax incentives originated a more efficient rent seeking because the investors would care of making movies with a return at least equal to the share of the costs spared as tax benefit and possibly with a return over this share of cost. The limit of the share of cost financed by the tax credit, entices the investors to an efficient production. But the linkage of the fiscal benefit to the costs of production and distribution may incentive the increase of cost of production that benefit the investors and their clientele as salaries, bonuses, fees, rents for the members of the movie

¹³ In France the tax credit for movies was introduced in 2004 (Talavera Milla, a 2012), in Hungary in 2004 (Deleau 2008) in Belgium in 2005 (Talavera b 2012), in Germany, Luxembourg and UK in 2007 (Deleau 2008).

¹⁴ By The Law December 24 /2007 n. 244 (Financial Law 2008-1010), Article 1, §325-343

¹⁵ Law 244 of December 24 /2007, Article 1, §. 325-337

¹⁶ Law 244 of December 24 /2007, Article 1. § 338-39. See G. M. Committeri and M. La Torre (2008), *Agevolazioni fiscali per il cinema*, Roma ANICA,

¹⁷ The EU regulations do not allow aids exceeding 50% of the costs. The limit is exceptionally increased to 80% for the “difficult movies” and for the movies with a small investment under the European principle “the minimis”.

companies. Tax incentives would be more efficient, for the promotion of the movies if , at least partially, were given to the profits as such not to the investments . On the other hand the lack of any previous exam by any state Commission of the project to be financed implies that also the movies without any relevant cultural value get a state aid. This new rent seeking has been more successful for the recovery of the Italian movies business than the financing by FUS but scarcely efficient from the point of view of promotion of movies with a cultural intrinsic value.

7. Since the '90 a new kind of public financing of movies emerged in Italy –as well as in many other countries-at the regional and local level by the so called “Film Commissions “. (ANICA 2010 and CINEREGIO 2011).¹⁸ Originally these Film Commissions, in Italy, were conceived as agencies for the supply of services of various kind to the movies producers to incentive the location of films in their territory as a mean of advertising their environmental and artistic and cultural values to develop the so called cine-tourism and to promote their local products . Then the Film Commission reinforced their promotional efforts adding to the services in kind, also money incentives by Film Funds which provide loans, cash, venture capital for the co-production¹⁹ . In principle also non Italian films may be object of this promotion, because the decisive factor is the connection with the territory. Often, the film Commission perform also other policies as that of promoting the local film production (documentaries if not feature films) and local Films Festivals and other entertainments. In 2011 in all the Italian Regions there was a Film Commission and many other Film Commission operated also at a lower level. They are particularly important, from the financial point of view in the Regions that benefit of the regional European policies for the less developed regions (so called Objective 1). So that a new kind of rent seeking flourished with competition on the supply side. What the Film Commissions do in the area of cine tourism is, really, a sort of product placement, and imbedded advertising parallel to that that has found broad development in the financing of movies industry (Balasubramanian . [1994], [Galicia 2004 A], Galicia [2004 B]. Balasubramanian , Karrh ., Patwardhan [2006] Economist Intelligence Unit, [2006] Del Brocco [2007]), Borrello D. , D. Dalli , G. Gistri [2008]).One currently distinguishes two couples of types of product placement 1). Screen Placement (Visual): whereby the brand or product is represented visually 2)Script

¹⁸ According to the survey of ANICA(2010) , at the end of 2010 there were 150 Regional and local funds in 35 states , with Germany leader in terms of resources and France and Scandinavian Countries in terms of number of Funds in proportion to the inhabitants. There is also an European Association denominated Cineregio, with the task of promotion and information about these initiatives within the European Union and outside , with 12 EU members and 3 non EU (Switzerland, Norway and Serbia) See CINEREGIO (2011).

¹⁹ According to the mentioned survey of ANICA at the end of 2010, in Italy there were 25 “Funds” in 14 Regions (out of 20). 60% of the Funds are directly managed by the Film Commission.

Placement (Verbal): whereby the brand or product is mentioned by the players of the movie. Both of them might become I)Plot Placement Integrating the brand or product in the plot and even II) Name Placement: the brand or product enters in the name of the movie, as in the movie” Breakfast at Tiffany’s” “The Devil dresses Prada” or- with an easier combination- “Christmas in Cortina “.Until 2004 the product placement in the movies in Italy had been practice extensively in a semi clandestine way. With a law of 2004 it has been made legal and regulated in detail ²⁰ . Systematic parameters have been adopted in this market .The market experience and competition have given origin to tables of value indicators which combine the intensity of the exposition with the degree of integration ²¹ . In principle these criteria could be applicable to the advertising made by the Film Commissions in the movies produced on their territory in exchange for aid in kind and in money. But then the triangle between them , the local interest and the movies business would loose its discretionary power in this rent seeking sector.

CONCLUDING REMARKS

Movies, in the EU, are considered as an important component of the European culture as expression of the national and regional diverse identities and therefore are protected and promoted under the cultural exception clause. This principle has allowed the development of many forms of aid to European movies with a proliferation of rent seeking. Until the '80 the aid to Italian movies had been modest. Indeed Italian movies had enjoyed a prolonged period of success since the postwar years until the mid seventy, when the competition of the new mass culture- of which TV was the most important vehicle -began to reduce the attendance to the cinemas. And the “Americanized” foreign movies prevailed . The cultural transformation had a negative influence also on other performing arts. Thus in the eighty an “iron triangle” was born of incipient rents seeking between the Italian cultural sector, the governments bureaucracy in the cultural sector and the cultural business to sustain the Italian performing arts in general and the Italian movies in particular with a section for movies of particular cultural interest. An ad hoc Fund (FUS) administered by a “Committee of experts”, under the Ministry of culture, was inaugurated. FUS for movies originally provided with important financial resources (a share of 0,020 the Italian GDP), as the regressions have shown, has not been successful in terms of new movies produced and as share of marker

²⁰ Decreto Legislativo 22 gennaio 2004, n. 28 (“Urbani Law”), Riforma della disciplina in materia di attività cinematografiche, art. 9 and by Law July /30/ 2004 on the technical modalities of the planned placement of brands and products in the scenes of a cinematographic work .

²¹ See P. DEL BROCCO, (2007) ,”Product Placement”, University of Rome, La Sapienza, on line in www.comunicazione.uniroma1.it

revenue by the Italian movies industry. Clearly here there has been a wasteful rent seeking .The fund of FUS for movies diminished constantly to became 0,005 of GDP . New alternative sources of public financing, have been adopted more apt to create a competitive setting in the movies business thus originating less inefficient rent seeking. Aside the tax credits on investments, introduced only in 2008, there are the Regional and local Film Commission that practice a sort of product placement of their touristic and local business values. The market share of the new Italian movies on the number of new movies has recovered and also the market share of Italian movies in terms of revenue has recovered, even if less.

Walter Santagata maintains that there is a sort of New Risorgimento of the Italian movies, imputable to sociological, cultural and organizational factors²². They may be true. However one may argue, with Armen Alchian, that the environment conditions the survival of the entrepreneurs ²³ And while in the hot house of FUS, the Italian movies business was not capable of recover in spite of the state aid, since the competition in the market has become more important, to benefit of the fiscal rents, this business has substantially improved. One may, obviously, object that this public aid distorts the trade, however the connected rent seeking appears now more efficient from the point of view of the chosen public policies.

²² See W. SANTAGATA (2009), *Libro bianco sulla creatività. Per un modello italiano di sviluppo*, , Milano, Egea, Chapter 7, “Il Cinema Italiano”, pages 163-65.

²³ A:ALCHIAN (1950 and 2006),”Uncertainty, Evolution. Economic Theory”, in A. .ALCHIAN (2006), *Choice and Cost Under Uncertainty* ,Collected works of Armen Alchian, Indianapolis, Liberty, Fund, 3-17.

APPENDIX

Table 1A Decline of the attendance to cinema. Number of ticket sold in the cinema			
Years	ticket sold (Millions)	Years	ticket sold (Million)
1966	632	1988	93
1967	569	1989	95
1968	560	1990	93
1969	551	1991	89
1970	525	1992	84
1971	536	1993	92
1972	554	1994	98
1973	545	1995	91
1974	544	1996	96
1975	513	1997	103
1976	454	1998	118
1977	373	1999	103
1978	318	2000	101
1979	276	2001	110
1980	241	2002	111
1981	215	2003	105
1982	195	2004	115
1983	182	2005	115
1984	132	2006	105
1985	123	2007	116
1986	124	2008	111
1987	108	2009	109

Source: SIAE, *Annuari Statistici dello spettacolo*

Table 2A Subscription to Italian TV

Years	Subscription to TV (for 1.000 residents)	Subscription to TV (for 100 families)	Years	Subscription to TV (for 1.000 residents)	Subscription to TV (for 100 families)
1966	133,2	46,4	1988	259,9	72,6
1967	147,8	51,1	1989	262,1	72,6
1968	160,8	55,2	1990	264,5	72,7
1969	173,1	58,8	1991	265,9	76,4
1970	185,4	62,5	1992	268,8	77,2
1971	196,8	65,8	1993	275,8	79,3
1972	207,2	70,6	1994	279,1	79,7
1973	215,5	72,5	1995	283,1	80,7
1974	222,2	73,9	1996	283,4	80,7
1975	225,3	74	1997	282,5	80,4
1976	228,8	74,2	1998	279,6	79,2
1977	234	74,9	1999	280,1	79
1978	238,9	75,7	2000	281,3	79
1979	243,4	76,4	2001	283,1	79,4
1980	247,8	76,9	2002	283,7	79,8
1981	249,1	76,3	2003	282,6	73,9
1982	251,6	76,7	2004	280,6	74,1
1983	254,2	76,2	2005	279,8	72,6
1984	255,6	75,3	2006	279,4	71,3
1985	258,1	74,3	2007	278,9	68,5
1986	256,6	73,6	2008	278,8	67,9
1987	259,5	73,1	2009	275,2	67,2

Source Istat Rai Radio televisione italiana

Years	Italian movie (I)	Italian movie financed (II)	share of Italian movies financed III (II/I)	New movie on Italian screen IV	share of Italian movies on new movies in Italian screen V (I/IV)
1966	232			466	49,8
1967	247			508	48,6
1968	246			589	41,8
1969	249			518	48,1
1970	231			494	46,8

1971	216			472	45,8
1972	280			530	52,8
1973	252			565	44,6
1974	231			539	42,9
1975	220			542	40,6
1976	237			560	42,3
1977	165			478	34,5
1978	143			438	32,6
1979	146			432	33,8
1980	160			541	29,6
1981	143			545	26,2
1982	128			382	33,5
1983	128			398	32,2
1984	108			339	31,9
1985	80	80	100,0	356	22,5
1986	109	109	100,0	416	26,2
1987	142	138	97,2	497	28,6
1988	150	109	72,7	524	28,6
1989	112	84	75,0	482	23,2
1990	113	100	88,5	495	22,8
1991	136	132	97,1	430	31,6
1992	126	85	67,5	437	28,8
1993	104	106	101,9	397	26,2
1994	110	38	34,5	373	29,5
1995	77	80	103,9	343	22,4
1996	90	64	71,1	390	23,1
1997	87	59	67,8	382	22,8
1998	97	60	61,9	396	24,5
1999	106	66	62,3	378	28,0
2000	103	57	55,3	367	28,1
2001	103	45	43,7	369	27,9
2002	130	64	49,2	368	35,3
2003	117	69	59,0	419	27,9
2004	134	43	32,8	369	36,3
2005	98	61	62,2	392	25,0
2006	116	47	40,5	385	30,1
2007	121	68	56,2	370	32,7
2008	154	62	40,3	376	41,0
2009	131	73	55,7	355	36,9
2010	141	78	55,3	380	37,1

Source: *SIAE Annuari statistici dello spettacolo*, and ANICA on Cinetel data. The figures of the year of new legislation-1985,97, 2004 are evidenced in black

Table 4
FUS in Nominal and Real Terms and as % of Italian GDP
Millions of Euro

Year	I	II	III
	Euro Current	Euro 1985	%GDP
1985	357	357	0,083
1986	415	391	0,087
1987	444	400	0,085
1988	464	399	0,080
1989	429	345	0,068
1990	459	349	0,066
1991	436	311	0,057
1992	477	323	0,059
1993	461	299	0,056
1994	461	288	0,052
1995	439	260	0,046
1996	472	269	0,047
1997	462	259	0,044
1998	478	263	0,044
1999	494	268	0,044
2000	499	264	0,042
2001	530	273	0,042
2002	500	251	0,039
2003	518	254	0,039
2004	499	240	0,036
2005	465	220	0,032
2006	427	198	0,029
2007	441	201	0,029
2008	471	208	0,030
2009	397	174	0,026

Source: ANICA

TABLE 5
Market Share of the New Italian Movies in Revenue Terms.
Revenue of Italian New Movies: Revenue of All New Movies

In Billions of Lire

Year	I	II	III
	Revenue All Movies	Revenue Italian Movies	% (II/I)

1966	165	88,9	53,87
1967	164	85,0	51,82
1968	170	91,6	53,88
1969	179	105,1	58,71
1970	181	108,6	58,66
1971	206	131,7	63,93
1972	237	149,5	62,86
1973	265	161,2	60,75
1974	321	190,5	59,19
1975	360	213,8	59,38
1976	375	213,5	56,93
1977	342	178,9	52,31
1978	346	149,9	43,32
1979	362	135,1	37,32
1980	401	173,9	43,36
1981	449	196,8	43,83
1982	504	231,5	45,93
1983	505	197,1	39,00
1984	471	156,5	33,12
1985	500	153,6	30,06
1986	584	179,2	20,65
1987	546	189,2	33,15
1988	516	143,4	27,71
1989	571	121,7	21,19
1990	607	126,5	20,75
1991	657	173,9	26,46
1992	663	160,2	24,13
1993	758	129,9	17,02
1994	823	193,7	23,57
1995	797	167,3	20,99
1996	875	216,6	24,68
1997	961	310,5	31,09
1998	1141	281,0	24,62
1999	1031	271,8	26,36
2000	529	102,4	19,28
2001	589	122,7	20,83
2002	629	147,4	23,37
2003	508	140,3	27,55
2004	656	140,2	21,24
2005	599	151,0	25,20
2006	678	151,9	22,40
2007	670	195,1	27,01
2008	636	171,8	22,59
2009	664	145,5	21,91
2010	772	215,0	27,84

SOURCE: SIAE, Annuari dello Spettacolo and ANICA

Table 6 A Decline of Expenditure for Performing Arts In Italy (1966-1998)

Years	% Gdp (I),	% Consumptions (II)	% Recreation And Culture Goods	Years	% Gdp (I),	% Consumptions (II)	% Recreation And Culture Goods
1966	0,81	1,25	16,14	1982	0,4	0,64	8,42
1967	0,79	1,22	15,84	1983	0,39	0,62	8,07
1968	0,77	1,21	15,72	1984	0,37	0,59	7,35
1969	0,75	1,19	15,75	1985	0,39	0,63	7,65
1970	0,69	1,09	14,47	1986	0,38	0,62	7,21
1971	0,66	1,09	14,53	1987	0,39	0,63	7,5
1972	0,66	1,08	14,52	1988	0,4	0,65	7,36
1973	0,62	1,01	13,36	1989	0,41	0,66	7,24
1974	0,57	0,94	12,71	1990	0,42	0,67	7,2
1975	0,62	1,01	13,36	1991	0,42	0,67	7,56
1976	0,52	0,85	11,27	1992	0,42	0,66	7,49
1977	0,49	0,79	9,93	1993	0,43	0,69	8
1978	0,45	0,74	9,06	1994	0,42	0,67	7,73
1979	0,4	0,65	8,42	1995	0,4	0,64	7,36
1980	0,39	0,62	8,07	1996	0,39	0,62	7,28
1981	0,41	0,65	8,36	1997	0,38	0,6	7,09
1982	0,4	0,64	8,42	1998	0,38	0,63	6,48

Data from 1999 are not homogeneous because of changes of classification criteria

SOURCE: SIAE, *Annuari Statistici dello Spettacolo*

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