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How Steven Spielberg's *Lincoln* Benefited from Crony Capitalism

By: Carten Cordell & Kathryn Watson - November 15th, 2012

As far as flashy movie productions go, Steven Spielberg's new film *Lincoln* may have it all—an award-winning cast, big-name director, and the historic locations in Richmond and Petersburg, Virginia to showcase the sprawling tale.

But like a starstruck paramour, Virginia has lavished countless gifts to win the heart of the big-studio production, offering sweet tax deals and sexy film grants to guarantee the state gets a piece of the fairest industry of them all, Hollywood.

"The only reason I can understand why they focus so much on the Hollywood industry is because it's kind of a sexy industry and the governor gets photo opportunities with movie stars," said Chris Edwards, director of tax policy studies for the libertarian-leaning Cato Institute. "I think it's that superficial, which is frankly pathetic."

The film opens in theaters nationwide on Friday.

Behind the scenes, policy analysts and lawmakers say *Lincoln*, which received roughly $3.5 million in tax incentives ultimately from taxpayer pockets, offers a glimpse into Virginia's runaway tax preferential treatment to subjectively selected industries. It's a practice they say skews the level economic playing field and eats up tax revenue needed elsewhere.

"From my point of view, the state giving $5 million to a billionaire to make his movie in Virginia is a luxury our state can't afford right now when we are cutting education, Medicaid and the rest of our safety net," said Virginia Delegate Scott Surovell (D-Fairfax).

But Virginia isn't alone in this game of film favoritism. More than 40 states now offer tax incentives for filming in-state, creating a complicated and costly arms race, Edwards said.

"I think it's sort of like a cancer," he said. "It's getting worse and worse. The more states have special deals for certain industries, the more other states are induced to the same, and it's sort of like an arms race within the states that just leads to a more complex tax code."

The Virginia Film Office was established in 1980 to lure multimillion-dollar projects away from Hollywood and neighboring states.

The business incentives to entice these projects were sweetened in 2010, when Gov. Bob McDonnell signed Virginia's first film tax credit into law.

Feature films, made-for-TV movies, television shows, documentaries, and even commercials, filmed in Virginia are eligible for tax breaks through the Virginia Motion Picture Tax Credit Program. There is a litany of of tax code voodoo from which the studios can shave off production costs, including The Governor's Motion Picture Opportunity Fund. It make it easy for big productions like Lincoln to save a buck on their Virginia tax returns.

The theory is that with a healthy film industry, movie production can make an economic splash in the state, hiring skilled workers, actors and extras. The ripple effect spreads to industries that service the production, such as caterers, craftsmen, and others.

"For example, you've got the caterers who buy food and hire people to work catering the film," said Mary Nelson, communications manager for the Virginia Film Office. "The expanded impact then is that the grocer has to go out and purchase food from a distributor, who purchases it from a farmer. The grocer hires people to work in the grocery store and whatever. This is all economic theory, and it means any dollar spent in that community has greater impact than just that dollar."

That's what McDonnell spokesman Jeff Caldwell argued, too, saying the *Lincoln* production had direct expenditures of $32.4 million, for a total economic impact of $64.1 million. The company hired 1,1990 Virginia-based actors and extras and 380 crew members. The production used 23,580 room nights in local hotels and spread business to places like grocery stores, restaurants, hardware stores, and dry cleaners, he said.
"The incentives given to attract this major motion picture to shoot in Richmond were a direct investment in bringing jobs, tourism dollars, and investment into Virginia," Caldwell wrote in an emailed statement.

But like summer camp, movie productions are part of a "fly-by-night" industry, eventually coming to an end and taking their millions back to California to prepare for distribution, Cato's Edwards said.

Surovell said instead of chasing the celebrity culture that follows film productions, Virginia should be investing in long-term economic solutions and revenue growth.

"I also think that to the extent that we do spend money on economic development, it ought to be for projects that support permanent investments in Virginia and not sort of fleeting activities like movie productions," he said.

But the argued-for economic growth, according to a 2010 paper by the Center on Budget and Policy Priorities, a policy think tank based in Washington, D.C., doesn't even pay off. The paper claimed the state revenue the films generate falls far short of the cost of tax breaks and subsidies doled out to the productions. The best jobs go to skilled workers imported from the out-of-state studios.

Edwards said the economic argument for film industry tax incentives is flimsy, and shows the tax code is broken.
"I think that's a stupid argument they make," Edwards said. "If they focus on making the overall tax code low and fair and equal, they would attract industry, because industry would know that they could come to Virginia and Virginia would have a competitive and equal and fair tax structure."

And it's not like this industry needs any help, said Matt Mitchell, a senior research fellow at the Mercatus Center at George Mason University in Fairfax.

"This is not like spending money on orphans and infants or the elderly," Mitchell said. "These are pretty well-heeled production companies. It doesn't make a lot of sense to be raising the tax rates on everybody else in order to pay for basically concessions to well-heeled production companies."

Virginia's preferential treatment of the film industry, said Mark Daugherty, chairman of the Federation of Virginia Tea Party Patriots, is just one example of its "fundamentally unfair" tax favoritism, along with breaks for industries like beekeeping and wine. At its worst, it's nothing better than "crony capitalism," he said.

In offering preferential treatment to some industries over others, leaders can actually inhibit the growth they hope to create, Edwards said.

"The film incentives are really the poster child for what's wrong with (tax) incentives," Edwards said. "Economically, state governments should not be favoring some industries over others. I mean, why should the film industry be favored over some more mundane industry like furniture manufacturing? Virginia needs jobs in unsexy, normal industries like furniture manufacturing as well as fancy or artsy industries like the film industry. And we don't want politicians choosing which type of industries they think are good for Virginia."

And the negative effects of preferential treatment only snowball, leading to more lobbying and an arms race among the states for certain industries, said Edwards.

"If state policy makers start buying off certain industries with special deals it's going to encourage other industries to come forward and say, 'hey why don't we get the cool credits like this,' so it encourages more and more lobbying, and ultimately, that reduces the incentive for overall tax reform," said Edwards.