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Legislative Council
Hong Kong Special Administrative Region
c/o Legislative Council Secretariat

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Submission to the Legislative Council
Information Technology and Broadcasting Panel

Regarding

Intervention in the Movie Industry

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The Lion Rock Institute, recognizing the vital role that market signals play in indicating productive uses of capital, is gravely concerned that the current government proposal to subsidise the film industry.

This program will at best waste \$300,000,000 of hard earned taxpayer money as the government funds a B-movie industry destined to supply the pirate DVD market.

At worst, it will see industry players participate in a self-enrichment program, entice our youth into an industry with no jobs and create a precedent for industrial intervention that will repeat itself over and over, weakening Hong Kong's competitiveness.

Furthermore, in this era of changing consumer taste, proliferation of alternative technology and shortening attention span, this funding program will create unnatural incentive for creative talent in Hong Kong to be train to work the increasingly obsolete sector that is movies of traditional length.

If taxpayers choose to support the industry, they should do it by paying to see the movies in the theatre or buying DVDs. If they believe that the industry is viable, they should invest in new or pre-existing market players. Being coerced into this through taxation is immoral, inefficient and ultimately harmful to the very creative talent this program was designed to help.

The Lion Rock Institute respectfully invites the Legislative Council and the Panel on Information Technology and Broadcasting to trust the Hong Kong people to reward those who best apply scarce resource of creative talent. Deny this request for funding and then support our best creative minds with your own hard earned dollars, be they online, at home or in the theatre.



The Demand for Subsidy Never Ends

The government proposal rests on the vague idea that the film industry has ‘spin-off’ benefits that are never quantified. It is supported by a ‘monkey see, monkey do’ argument citing France, Britain and Korea’s continued investment their industries.

However, if France, Britain and Korea were so successful, why does there continue to be a need for continued subsidy of these global film powerhouses? Shouldn’t investors have realized the vast wisdom of the governments in supporting this industry and stepped in to fill the gap? Indeed, the Hong Kong government has been funding our film industry for years through the Film Guarantee Fund and the Film Development Fund. Now the money is gone and the industry and associated bureaucrats need another hit for their subsidy addiction.

Worse, encouraging people and companies to use taxpayer dollars to pursue an uncompetitive business model, the government ensures a culture of dependency. Encouraging people to receive subsidized training to work in a subsidized industry is laughable until the funding ends and the tragedy strikes – years wasted training for a job not in demand.

Picking Losers, Not Winners In the New Media Era

Andrew Shuen Pak Man of The Lion Rock Institute specifically fears damage to our creative class as they are enticed into producing products of diminishing attractiveness in the Internet age. This could sacrifice their precious chance of being trained in producing video products in formats that actually have consumer demand.

In other words, the continuing lack of market support will not only waste money, it will also send our creative class down a blind alley while their international counterparts are forced to innovate and become more skilled in adapting to new media and market tastes in the Internet age.

The decline of movies is not unique to Hong Kong, and one-off hits from countries like Korea should not be mistaken for a real industrial revival. Even the UK, cited in the government submission to the Panel on this issue, has an industry in terminal decline, government support notwithstanding¹. British Treasury officials paint millions in tax revenue as a benefit, even though that revenue is dwarfed by preferential tax breaks and industrial subsidies – the type of logic used exclusively by politicians and bureaucrats justifying industry handouts².

¹ *Film industry 'adds £3.1bn to UK'* . BBC News Online. 22 September 2005.: “figures for 2004 showed the number of jobs in the UK’s movie industry fell by 20% to 24,816 people.”

Also: “... inward investment has fallen from about £549m in 2004 "to probably around £324m in 2005.”

² Ibid.



In the United States, movie going has been in a decline for years. AMC theatres (North America's biggest chain) blames this on the unattractiveness of movie product³. The proliferation of DVD sales, the cost of theatre going, cable and specialty TV and the availability of alternative creative efforts online have all taken their toll⁴. Mr. Flanagan, in his article concludes, "it appears unlikely that the movie business will return to growth numbers anytime soon..." This is from the US industry where a single successful film can have opening weekend box office receipts dwarfing the \$300 million our government plans to spend. What hope has our government of reversing an international trend responding to profound technological and cultural changes taking place in the world today? Better to let our nascent creative class, innovators and entrepreneurs discover opportunities, profits and create great art through the mechanism of the market.

Frankly, the track record of the Hong Kong government funding and selecting other types of business (Cyberport?) have been somewhat disappointing. We do believe that even if we could give the benefit of the doubt in this case, the moral argument of harming creative talent would justify having this program stopped in this embryonic stage.

No Accountability, No Skill, Bad Investments

When government steps in to play the role of investor, they commit the classic mistake of taking money from productive uses in the market to spend it on a bureaucracy that then puts it to ineffective uses.

The government proposal seems specifically designed to return to the old days when the industry churned out countless terrible movies. The advent of piracy forced players to make movies that were best seen on the big screen, keeping people in theatres. Targeting low budget films put the government squarely in the role of B-movie funder. Making movies no one will pay to see seems a shameful way to use taxpayers' money.

The argument against government intervention in specific industries is so well established it does not bear repeating. From Mao's Great Leap Forward to Hong Kong's own Cyberport and Science Park, government intervention simply doesn't pay.

The fact is, if government bureaucrats were expert investors, they would earn far more money working with Goldman Sachs, Carlyle or Golden Harvest.

³ AMC Entertainment 10-K filing, Q3 2005: "U.S. and Canada admissions revenues and industry wide-box officewas impacted by overall popularity of film product."

⁴ Flanagan, Terence. *Does Box Office Decline Have Legs?* LeverageWorld, January 27, 2006.



Spin Off Benefits? Who Knows?

If their argument is spin-off benefits, then they hold their wisdom higher than that of the Hong Kong people, the classic hubris of socialism that inevitably leads to disaster – or at least a huge waste of government funds. Worse, they act on this supposed superior wisdom with no risk to themselves using other people's money and no need to show the results.

One of the positive things about the Hong Kong government is that they do recognize that the private sector often has expertise that surpasses their own. Accordingly, they propose to include industry players in helping with the decision making process.

Regulatory Capture – Not a Theory, Our Current Situation

Unfortunately, this leads to the danger of regulatory capture, a process explained by Nobel Laureate James Buchanan in his work on public choice theory. Simply put, those with the most at stake will strive, often successfully, to control the regulatory and other government processes that influence them or could benefit them.

The current proposal may seem to safeguard against this, by limiting the size of the disbursements, leaving the government in the role of producing B movies. However, David Webb, in his paper *Lights, Camera...Budget*⁵, outlines concerns about how this process has been perverted in Hong Kong's previous film subsidy regimes to benefit limited groups of people. The complexity of laws often provides more, not less opportunity for rent seeking behaviour, as those in rule-writing and decision making positions consider every combination to work laws and policies to their favour.

⁵ <http://webb-site.com/articles/filmbudget.htm>



Stop Before We Subsidise Again

The industry will survive. Many believe that Hong Kong movies now are vastly superior to the dross produced in the 1990's. Individuals have sold the government on the idea that they deserve the material support coerced from their fellow Hong Kongers - that somehow their livelihood is superior to their fellow taxpayers. Calls from other sectors for government pork have already begun. And why shouldn't they? Why do the 6,000 receive \$50,000 a head and not others?

For every industry subsidized, 10 more are emboldened to ask for their share of public largesse. We need to stop current subsidy programs, not create new ones.

Hong Kong has successfully built an economy largely free of the complexities that complicate and bedevil other regions. We clearly dominate Singapore in attracting corporate headquarters through a policy of wide spread economic freedoms – not tax breaks for selected firms. New industries rise and old ones leave as capital is allocated to the most productive uses. This is admirable and makes Hong Kong a leader in the region and the world.

Economic freedom, not government subsidy, has made Hong Kong great. Trust the people of Hong Kong to decide whether or not to reward the film industry for excellence, and please do not sacrifice the future talent of the creative industry by enticing them into this trap.

Thank you for your consideration and continued work serving Hong Kong.

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