There are better 'investments' than Pa.'s film tax credit

ANTONY DAVIES & JAMES R. HARRIGAN | Saturday, Aug. 22, 2015, 9:00 p.m.

Want to invest in a movie? Don't bother answering because you are going to if the film industry has its way. The star-struck politicians in Pennsylvania will simply force you to invest. And here's what they don't want you to know: Movies are a terrible investment.

A recent report by the Milken Institute makes a case for subsidizing the film industry, saying that such subsidies are an investment. Fine, let's analyze them as investments: How much will this investment cost? What return will it generate? Are there alternative investments that promise the same return at less risk or a greater return for the same risk? We address these in turn.

Investments are upfront payments followed by future returns. But the film industry doesn't want an upfront payment. It wants $60 million to $100 million every year in tax credits. It will tell you that tax credits don't cost Pennsylvania anything because, without the credits, the industry wouldn't exist anyway.

But this isn't true. The tax credits are transferable, meaning that the film industry can sell them to businesses that would otherwise be paying taxes. Also, the film industry would be using infrastructure and services that would otherwise be used by Pennsylvanians who were paying taxes.

Regarding potential returns, Milken estimates that 107 jobs will be created for each $10 million spent on productions. The film industry is quick to point out that every dollar the government spends subsidizing the film industry creates more than a dollar of income, as those dollars are spent on local transportation, food, lodging and other products.

But this phenomenon, known as the “multiplier effect,” isn't special to the film industry. The additional spending would occur no matter what industry the government subsidized. In fact, it would occur if the government simply threw the money out the nearest window. Or, for the sake of equity, dropped it from a helicopter.

The real question is if there are better investments out there. There are.

Look at one strong Pittsburgh industry: higher education. According to their 2013 tax filings, Carlow and Chatham universities each spend under $60 million annually — the same as the annual cost of the film tax credit. Employing more than 1,000 people each, it costs these universities $43,000 per job created. The Milken report says that the film tax credit will cost $93,000 per job created.

In other words, for the same annual $60 million the film industry wants, Pittsburgh could create a college the size of Carlow or Chatham, pay every employee and allow every student to attend for free. This would create twice the number of jobs that the film industry says it will create. And these jobs would not disappear the minute filming was complete.

For $60 million a year, Pittsburgh could produce 500 debt-free college graduates annually. Or it can make movies.

We're not suggesting that the state should invest in colleges. We are pointing out that if politicians are going to force taxpayers to invest in an industry, there are other industries out there that are far better investments. That we aren't having a public discussion of those alternatives underlines the fact that politicians have no business playing Wall Street tycoon with our money to make movies.

Antony Davies is associate professor of economics at Duquesne University. James R. Harrigan is director of academic programs at Strata in Logan, Utah.
