

the audience probably does not realize it is seeing a film made abroad As European-made films continue to have success in the United States, American companies will be more likely to invest in them. This will increase the problem of defining the nationalities of films and accelerate the vanishing of what little dividing line remains today.

5: The Foreign Policy of the American Film Industry: Monopoly and Free Trade

For many American industries, export trade is a sideline. This is not the case for the American motion picture industry, because without the foreign market the American film industry as we know it today

would collapse.

To facilitate operation overseas and to secure markets, the American industry has had to develop a foreign policy and to build and structure an organization to carry out this policy. These measures have been developed over decades, many through trial and error, others through positive planning. The industry has explicitly stated little about its foreign policy. Yet a policy is clearly evident when one studies the foreign operations of the industry, for certain principles, objectives, and tactics appear and reappear.

Aside from field offices maintained abroad by individual companies, foreign affairs of the major American companies are centered in the Motion Picture Export Association, an arm of the Motion Picture Association of America. The MPEA was organized as a legal cartel and registered in 1946 under provisions of the Webb-Pomerene Export Trade Act of 1918. This act provides qualified exemptions for American business from prohibitions in the Sherman Act of 1890 and the Federal Trade Commission and Clayton Acts of 1914, but only insofar as the business of the associated enterprises relates to export trade. The MPEA is one of the more than two-hundred associations and organizations which have registered during the last fifty years with the Federal Trade Commission under the Webb-Pomerene Act

annually for American films. On a worldwide scale, the lack of a solid front can be more costly. More than a decade ago, Eric Johnston, the late president of the MPEA, claimed that American companies would lose \$100,000,000 a year if ever they resorted to individualism in dealing with foreign countries. He was quoted as stating:

Our pictures fill about 60 percent of the screen time in foreign countries. When any one of them wants to impose restrictions I can go to the Finance Minister, not threateningly, but to simply state that our films keep more than half of the theatres open. This means employment and a bolstering factor for the economy of whichever country is involved. And I can tell the Finance Minister of the tax revenue which these theatres yield.

But if only two or three American companies were to accept the restrictions on their own, my argument with the Finance Minister would lose its weight. My position would be an impossible one if our ranks are to be broken. We must have the uniformity of policy.²

It would seem that not only is uniformity necessary for the execution of policy, it has become a policy in itself. The MPEA has stressed this point continuously, although momentary economic gains for individual companies have sometimes overridden the MPEA's call for a solid front. The trade press has observed that even though the American companies are joined in the MPEA framework they often maintain an individual and competitive manner of operation. The observation added that this type of policy is

absolutely geared to the need of the instant moment, without much consideration either for the overall European pattern, the benefits of unity or the economic shape of things to come. . . . With the squeeze on order than ever to produce revenue, the companies in Europe aren't beyond pulling the rug from beneath one another's feet.³

This is illustrated, perhaps, by events which occurred during the MPEA's boycott of the Danish and Spanish markets. The official declaration of the MPEA was that member companies were halting all shipments of films and that they would no longer distribute American pictures until grievances had been eliminated. The plan was to withdraw American films from the market, create a product shortage, and cut heavily into exhibition revenues. The idea, however, did not function as conceived because some American companies

Generally, a registered association can act as the sole export sales agent for its members, set prices and terms of trade for sale of its members' products abroad, and make arrangements for the distribution of these products in overseas markets.

The MPEA facilitates overseas activities of its members in a variety of ways by expanding and keeping open foreign film markets, expediting transfers of earnings to the United States, reducing restrictions imposed on the distribution of American films through direct negotiations and "other appropriate means," disseminating information of interest to members about trading conditions abroad, negotiating film import agreements, and in some cases, negotiating rental terms. The association has been referred to as "The Little State Department" because its functions, scope, and methods are not unlike those of the Department of State. It maintains an office in the United States as well as an extensive network of offices in key film markets. It negotiates, compromises, threatens, and bargains to achieve its objectives. It tries to win friends and to influence local policy. It even has been known to give "foreign aid" in the form of loans and subsidies and to bolster employment in foreign industries by virtue of American film production in those countries. The MPEA embodies the interests of businessmen and diplomats (some who have actually represented our government), whose principles and methods have clashed occasionally: on the one hand, business may be demanding a swift resolution of a particular problem; on the other, diplomacy would call for negotiation and compromise. The blend of these viewpoints has not produced uniform success for the MPEA in overcoming foreign difficulties for statesmanship—has, on occasion, given way to the approach favored by company management.

To be effective in its foreign activities, the American film industry has to present a united front, ideally in the form of the MPEA whose mission is to represent the companies belonging to it. Solidarity is essential in negotiation, as only in this way can the MPEA hope to achieve the best possible operating conditions for its members. When ranks are split, the MPEA bargaining position is weakened, as it ceases to speak for an entire industry. The opponent of the MPEA, whether it is the French Centre National de la Cinematographie, Italy's ANICA, or another comparable body, recognizes when unity is lacking among the Americans, and is better able to press its demands without compromise.

Disunity within the MPEA can be fatal, especially when major markets are at stake which can yield \$20,000,000 to \$30,000,000

allows ability to be the test of whether a producer, distributor or exhibitor can meet competition and prosper or fail according to the results of his efforts.

Monopoly and Free Trade

This verbalization of the free enterprise philosophy applied on an international scale calls for a completely free marketplace in which goods of different origin can compete for public favor. In centering purely on economic and business considerations, the view overlooks the fact that film is, in addition, a vehicle of creative and cultural expression. The film has been turned into a business commodity by those people who have come to control it, but this does not, and cannot, negate its role as a carrier of images, ideas, and ideals. In many countries, due to economic factors which have been imposed on the film, it has perforce been considered in business terms only. From an economic view, film production in these countries may not be a "healthy industry" but the value of film as a nationalizing medium makes it worthy of state support in order for production to continue. The contention that "a free market allows ability to be the test" may seem plausible, but only in a business context. The American industry, in its campaign against restrictions in overseas markets, is clearly following its own economic interests, because these restrictions have been devised almost solely to protect foreign industries from being crippled or put out of business. The MPEA, legally empowered to monopolize export business for its members, in combination with demands for free trading in foreign markets, has become a twopronged instrument of policy. On the one hand, there is pressure for the elimination of trade barriers, and on the other there is an organization whose purpose it is to enter and secure foreign markets for American films. With restrictions inoperative and foreign industries in a poor competitive position, the organized American industry could become as strongly entrenched abroad as it has been in its own domestic market.

The development of the European Economic Community (EEC) has posed a problem for the American industry. In general, the Common Market aims to reduce barriers over a period of years so there can be an increased flow of goods, services, capital, and labor among its members. A key objective of the Community is the elimination of internal trade restrictions, which is to provide the impetus for augmenting the circulation of commodities. In the First and Second Directives pertaining to film of the EEC Council, steps have been taken in this direction. Import quotas applying to films made by

franchised Spanish distributors to handle their films, while in Denmark a number of films were made available to a Danish distributor by an American company.

Uniformity of view is complementary to the monopoly foundation upon which the MPEA operates, for the organization, under the Webb-Pomerene Act, is entitled to represent overseas the combined interests of American film companies who are supposed to be competitive in the United States market. While the MPEA strives toward monopoly in its activities, it also pursues the doctrines of competition, free trade, and free enterprise. These tenets are not necessarily at odds with monopoly for, in reality, they work to create market conditions overseas which are healthy for American companies. Free trade slo-

gans and certain activities of the MPEA work to eliminate restrictions on the importation and circulation of American films in foreign markets. Reduction of barriers means easier access to the market for American pictures and a greater opportunity to exploit them. The unified export activities of the industry, when and where they can be obtained, facilitate a greater hold on the market and also operate to discourage any subsequent restrictions which might be contemplated. The companies view screen quotas and import quotas as restrictions on free trade, that is, restrictions on the free flow of American films into markets. There is also evidence to suggest that companies have, at times, looked unfavorably upon programs of foreign governments which support local film production through subsidies and rebates to producers. The belief was that the combination of quotas and production assistance permitted foreign industries to operate with a competitive advantage over American films brought into these markets. Quotas limited importation and reserved a portion of exhibition time for local films, while subsidies permitted local producers to make films which could compete with American products.

The vice president in charge of foreign distribution for United Artists discussed these measures before a United States Senate committee in 1956. He dealt specifically with Italy, as an example, and revealed how Italian film producers benefit from a subsidy program. The vice president said that this "has not served to create a healthy industry." He added:

It is my considered opinion that subsidies and artificially created market conditions only serve to subsidize mediocrity, and the public will not patronize such a medium to the extent necessary to keep it healthy. The freer the market in all phases of its operation, the healthier is the state of affairs that will exist. Only a free market

member nations were eliminated by the end of 1966 while mandatory screen quotas applying only to national films were expanded to include films made in any EEC country.

The American industry constantly has favored elimination of restrictions and on this point it could be said that the aim of the Community is seemingly parallel to that of the American industry. However, the problem exists as to how the Community will treat American films (or other non-Community films) and, more importantly, American investment in Community pictures. Indeed, EEC policy on these points is still in the developmental stage. The response of the American industry to the EEC has not been uniform because the trade policies of the Community could both favor and work against the interests of American companies.

Eric Johnston strongly endorsed the principle of the Common Market in a speech in 1958. He declared that expanded American economic activity depended, in part, upon the functioning of the European Economic Community. Not only did he support the EEC, but he went further and advocated similar trade blocs in Asia, Africa, and Latin America. It is not clear whether Mr. Johnston was speaking as president of the MPEA or as an economic advisor to President Eisenhower—he held the two positions simultaneously. The position of the MPEA, however, has been that any measures which contribute to greater overall economic stability and security in Europe must in the long run benefit American business, including American film business.

Unofficial industry opinion in the past has not been as optimistic, since it realized that reduction of western Europe's internal restrictions could mean an increase of external restrictions. But this has not materialized in the realm of the film. Nonetheless, a belief within the American industry has been that those people in Europe who favor applying Community principles to film would like to better their competitive position at the expense of the American film. In 1959, Variety reported that MPEA executives

are now acknowledging more or less publicly what heretofore was strictly private opinion, that is, that the real purpose of the Common Market re films was a united defense against the domination of the U. S. motion picture on the European screen.²

The article disclosed that one MPEA executive claimed he did not see what the Common Market could hope to obtain for the betterment of the European film industry that might not be attained as easily

outside the Community structure. He believed the only things EEC could provide were the mechanics and rationale for imposing more restrictions on the importation of American films. The executive was reported as saying that film industry people in Europe

aren't really interested in liberalizing trade. They're principally interested in building up some kind of defense against U. S. films. Despite all the talk, neither tariffs, nor quotas, nor taxes, is the bugaboo. *The bugaboo is the U. S. film!* [Italics mine]

While a defense against American films might have been important a decade ago, the more pressing problem today is a defense against American economic control of European production and distribution. Although the American companies may be influential when individual European countries generate policy for their own film industries, their influence on a supra-national level is not as great and they can only assume the role of powerful, interested observers. Because of this, and the uncertainty which has prevailed concerning the film industry's position within the Community framework, the American industry has recognized that it must adapt itself to probable changes in the European film industry's structure.

American film companies have one overriding *raison d'être*: they are in business to make motion pictures which make money. They owe allegiance to the profit motive as long as it does not conflict with the laws, policies, or wishes of the American government. Loyalty to profit does not put them beyond producing pictures in foreign countries; in fact, it encourages them. This being so, they find themselves free to shoot films abroad as well as to invest in foreign-made films which are legally not American but "French" or "Italian," for example. This is important as far as the Common Market's application to the film industry is concerned, for it is one method by which American industry can coexist with an organization which might have initiated policy unfavorable to the importation of films from the United States.

The American industry's policy *vis-à-vis* the Common Market has not been developed as a frontal assault on trade barriers which the Community could erect. Rather, it has been aimed at bypassing possible restrictions by a flanking movement. This entails direct and indirect investment in European film production, which removes the "American" label from a film and substitutes the nationality of the country in which the film was made. By this means, American companies can have their films, their revenues, but not the restrictions which

During 1966, Eric Johnston toured the African market to survey exhibition facilities and to contact African government officials. One reported purpose of the tour was to study measures which might work to restrict the circulation of American films in the area. In noting that independence meant a restructuring of the film distribution process, Variety reported:

With the coming of independence, and the rising tide of nationalism, these old distribution patterns are bound to change, and the result could be chaos unless the U. S. film industry can convince local government chiefs of the economic importance of trade as unrestricted as possible. In Guinea, for example, [an American executive] said, there already have been moves by the government to take over all film distribution as a government function. "In such a situation," [the executive] asked, "doesn't it make sense to have someone like Johnston go right to the top man and talk the matter over? In many cases, there's no one beneath the top man who is empowered to handle the problem."

In this case, the MPFA pressed for elimination of restrictions, whether they were actual or potential. Variety continued to report this anonymous American executive's remarks, and in discussing trade barriers, added:

Typical of the kind of "protectionist" and/or unrealistic thinking in many of these areas . . . was that to be found in one newly independent African country . . . which has decided to build its own film industry by placing prohibitive taxes on all foreign distributors. . . . The Johnston tour is designed to check this sort of situation, if possible, before it starts.

The anonymous executive was quoted as saying that "we have to make them aware of the U. S. film industry and of the fact that we are interested in the futures of their countries."¹⁰

After his tour, Mr. Johnston indicated that Africa offered a substantial opportunity for the development of a new American film market and predicted that revenue could be considerably larger than it was at the time. Before 1960 ended, the MPFA had authorized a committee to consider developing a corporation for exploiting the west African market. The major functions of the new association were to be distributed films of member companies, developing exhibition facilities, and initiating a program of government relations. The last point can be

has not been the primary motive for this new stream of investment, it undoubtedly has been one of the contributing reasons for it. How demands for free trade and a monopolistically organized export business work together is evident from events which have occurred in Africa and its newly independent nations. While colonial policies were in force, the African market was serviced from parent countries in Europe. As the colonial status was erased and African dependencies became nations, the flow of motion pictures began to restructure itself and opportunities appeared to develop new markets. The American industry's attention to Africa, however, did not start when new nations were born. This only added new interest and urgency to a plan which had been developed under a different rationale. decade and which had been developed under a different rationale.

As early as 1952, Eric Johnston noted that American companies should begin considering how to exploit new markets rather than rely solely on existing ones for revenue. He felt that some markets were then yielding as much as they could and that American companies should not exhaust themselves trying to extract a few additional dollars when the effort could be applied better in virgin areas. Mr. Johnston declared that American companies would do well to look to such markets as Africa and the Far East where, as he emphasized, the theatre-going habit was still in its infancy. He believed that these areas offered potentially wealthy markets. A year later, Mr. Johnston stressed the point again, saying that while Europe was still a major source of revenue, it was rapidly becoming a static market. In discussing Europe's ability to yield revenue, he declared that "we have to fight for it, but we should begin to concentrate more attention on other great markets like South America, Asia, the Middle East and Africa" even though initially "they may be low income areas."

Significant action apparently was not taken on these proposals until 1959—a fact which suggests that the companies' policy might have been decidedly short range in contrast to that of the administrative and diplomatic side of the industry, which had urged action at least seven years earlier. In 1959, MPFA representatives were authorized to make an inspection tour of the west African market. According to the association, the annual revenue accruing to American companies from that market at the time was around \$125,000. It was believed that with proper handling, the area could be made to yield a good deal more. (The prediction was well-founded, because by 1966 the west African market was worth close to \$500,000 to American companies.)

construed as including attempts to head-off threatened restrictions on American films and to reduce those barriers which already existed.

In less than nine months' time, a new company was born and incorporated under Delaware laws. The American Motion Picture Export Company (Africa), was established and registered under the Webb-Pomerene Export Trade Act to coordinate the export business of the American film industry in the west African market. Participating companies included Columbia, M.G.M., Paramount, United Artists, Twentieth Century-Fox, Buena Vista, and Warner Brothers.

While technically separate from the MPAA and the MPEA, AMPEC-Africa drew its officials and administrative personnel from these organizations. The expressed function of AMPEC-Africa was the distribution of American pictures in Liberia, Nigeria, Gambia, Ghana, and Sierra Leone, although the company could move into other areas by unanimous vote of its directors. Member companies licensed the corporation to distribute their films in this market and to act as the sole bargaining agent and representative. The new company had the power to accept or reject rental offers from exhibitors and to control the number of films on the market.¹¹ The structure of AMPEC-Africa is such that it works to monopolize the supply of American pictures and can turn the flow on, or off, as conditions warrant.

The importance of the African market to the United States today is probably not as much economic as it is political. This follows indications from American industry sources that the United States government has not been entirely passive while the film industry has been trying to gain and maintain a foothold in west Africa. It has been suggested that propaganda considerations of the American government were part of the motives behind the American film companies' movement into this area.

AMPEC-Africa's activities, when viewed not only in economic but in political terms, offer a contrast to what many believe are more pressing needs in Africa. In January and February, 1962, a meeting at the UNESCO Headquarters in Paris discussed informational needs on the African continent. The official report declared that the participants

agreed that concerted action should be taken to develop the media [press, radio, television, and film] in all African countries, particularly in rural areas, and promote their effective use as a means of information and education for the people.¹²

Specifically concerning film, the report suggested that African countries wishing to develop film production should study "problems of policy and priorities in view of the aims to be achieved and the resources at their disposal." The report recommended that "policies should be determined chiefly in the light of the contribution which films could make to education," considering the "urgency of educational problems in Africa."

In discussing film production in Africa, the report declared that "encouragement and support to national film units" should be given "in order to promote rapid development of the production and distribution of films that are truly African in style and content." The UNESCO conference did not ignore ways and means of supporting local film production. It recommended:

Governments should take all possible measures to assure the expansion of national film production. They might consider levying an import tax on foreign films commercially distributed in their countries.

While UNESCO was suggesting an import duty, American companies were working to prevent the implementation of such a measure. The same anonymous American film executive cited earlier mentioned this point. He said that because most national markets in Africa were too small to make it feasible to supply each with their own prints of Hollywood films,

... it is vital that distributors be able to send prints from one area to another without payments [of] border taxes or duties. If they should be imposed—and it's always a danger since such duties look like an easy source of income—film trade in such areas would come to a halt.¹³ (Italics mine)

The stake the American companies have in this problem is evident. The more they have to pay for duties and taxes, the less they can withdraw from the market. Furthermore, if such levies were used to support local film production, the American companies would be indirectly assisting small potential competitors.

The monopolistic element in the American industry's foreign policy is detectable in another geographic area. While it is not a major market, the experience the American companies gained there perhaps was useful for the move into west Africa.

Malta, a tiny island with some 300,000 inhabitants, has about three

The high importation of films alarmed the German industry and the Spitzenorganisation der Filmwirtschaft pressed the government for measures to regulate the number of imports.

In March, 1950, the West German government proposed that importation of American films be curtailed sharply and demanded that American companies limit themselves to bringing only one hundred pictures into the market annually. Shortly before this, the American distributors had agreed on a yearly ceiling of about 160 films. The reduction asked by the government threatened to hinder the operations of the American companies and was construed by the latter as a move to block their easy access to the West German market.¹⁰ At this time, the Allied High Commission maintained authority over the West German parliament's legislative powers. The Commission could veto items approved by the parliament if it felt they did not contribute to the reconstruction and rehabilitation of Germany, or if they violated the Commission's own laws.

The occupation statutes, enacted in September, 1949, included Law Five on "Freedom of Press, Radio, Information, and Entertainment." The proposal of the West German government was brought to the Commission's attention and in June, 1950, the High Commission rejected the parliament's plan for officially limiting importation of American films. In its rejection, the Commission declared that film was an information and entertainment medium and that Law Five applied to matters concerning film importation. This appeared to end the immediate threat of governmentally imposed quotas on American feature pictures.

Law Five, however, was vague in its reference to film and did not refer explicitly to importation. Article I of the law provided that:

The German press, radio and other information media shall be free . . . , [and that the] Allied High Commission reserves the right to cancel or annul any measure, governmental, political, administrative, or financial, which threatens such freedom.¹¹

The law did not give the Allied High Commission power to reject West German government proposals for import quotas when such imports were threatening economic hardship for that country's film industry. Moreover, the law did not make it mandatory for the Commission to invalidate measures pertaining to film approved by the West German government. Thus, the Commission's right to decide against import quotas was questionable and there was no assurance

dozen film theatres, and the market is clearly too small for the major distributors to set up their own offices there. Following World War II, two small Maltese companies managed to acquire control of the cinema business on the island. It is said they illegally acquired prints of films and were distributing these without making payments to the films' producers. Because Malta is a British-controlled island and had been serviced with films from distributing companies in London, British distributors decided to press the case and regain the market. The Kinematograph Renters Society (KRS), an organization of British distributing companies, brought action against the two Maltese firms, and, in effect, put them out of business. To secure control over the island, KRS established the Malta United Film Company in 1947 to organize and monopolize the flow of films into the market. The company, however was not a strictly British undertaking, as American distributing companies have subsidiaries in Britain which are members of KRS. In practice then, the Malta Company was a joint venture between British distributors and the United Kingdom subsidiaries of American distributors. The MPEA was not officially involved in the venture, although individual companies were free to become parties to it.

The members of KRS, which account for virtually all the business in the British market, license the Malta Company to distribute their films in the Maltese market. In exchange for this service, the company receives a commission on the rental fees. With few exceptions, the Malta Company handles all English-speaking films entering the market and, as a trade source stated, has a monopoly of the film distribution business in Malta worth about \$400,000 annually.

An earlier chapter (2) concerning European restrictions of film importation reserved discussion of West Germany until later. That market can be considered now to see how events there coincide with the American industry's foreign policy. By 1950, difficulties facing the German film industry had grown to such magnitude that ways were sought which might bring any measure of relief. Credit for production was hard to obtain as banks were lending money at high interest rates for industrial purposes with less risk than film production. In West Berlin alone, forty-three out of fifty-seven production companies had not made a single film by 1950.¹² Moreover, on a number of occasions, film studios in Munich had been idle for months at a time because no company had the capital to produce. Film importation was high, the United States being the chief supplier, and little screen time was available for German pictures even if they could be produced.

the Commission would repeat its action if the West German govern-

ment brought the matter up again.

This apparently was recognized by the American film industry, for its subsequent activities demonstrated that it was not entirely satisfied with the June decision of the High Commission. In October, 1959, representatives of the MPEA visited the State Department in Wash-

ington to impress upon it the propaganda value of American films for rebuilding West Germany. An implicit aim of the mission was to win State Department approval for the principle of unrestricted access to the West German market. By couching the matter in a political and propaganda framework which was closer to State Department think-

ing, the film executives hoped to get official support for their cam-

paign. If free access to the West German market could be guaranteed, then the economic aims of the film industry, and the political aims of

the government, would be fulfilled.

The MPEA argued that "Germany is the focal point in the current

battle of ideologies" and that while millions of dollars were being spent on Voice of America programs, it would be "illogical to restrict

the powerful message that American pictures could carry to the Western Zone" of Germany. "MPEA representatives declared this

message was in danger of being hindered in West Germany through

the desire of its industry to protect itself against Hollywood competi-

tion. They felt that if the State Department really wanted to assure

maximum exposure of the American message, then the Department

would have no alternative but to instruct the High Commission to

prohibit any further measures which would restrict importation of

American pictures. The MPEA contended that unregulated importa-

tion would not mean a flooding of the West German market as the

Germans insisted.

Shortly after, the State Department instructed the U. S. High

Commission that it preferred to see no quota on the importation of

American films. This reinforced the June decision of the High Com-

mission and set a policy for future action. It also meant that Holly-

wood's economic interests were bound inextricably with Washington's

political interests and that both parties could work together, when

they wanted to, with mutual support. The State Department's deci-

sion further indicated that governmental policy, at least in this case,

was implicitly in favor of supporting the export business of American

companies even when it seemingly threatened to bring hardship to

foreign competitors in a country the United States was trying to

rebuild.

Without an official quota, the industry was at liberty to determine what it thought constituted a suitable number of American pictures in West Germany, considering the box office potential and the general economic state of the market. While the American government op-

posed on political grounds West Germany's initiating a quota, the American industry was free to impose on economic grounds a quota

itself.

As MPEA representatives were presenting their case in Washing-

ton for a quotaless West German market, other MPEA representa-

tives were negotiating with the Spitzenorganisation der Filmwirt-

schaft to reach a voluntary quota on American films in Germany. The

number agreed upon was approximately two-hundred, a small in-

crease over the previous year's amount and substantially more than

the West German government thought the market could absorb. This

informal self-controlled importation, known as the "Gentlemen's

Agreement," called for the MPEA to try to keep annual imports to the

agreed-upon ceiling, although there was no penalty if imports ex-

ceeded it. From the standpoint of the West German industry, "this

was not successful," according to one writer. Henry P. Pilgert, in a

publication of the U. S. High Commissioner for Germany, declared

that "foreign competition continued to plague the German motion

picture industry . . . since many of the companies did not adhere to

their self-imposed quotas. . . ."

The agreements executed after 1950 generally were negotiated in

an atmosphere of stress. Groups within the West German industry,

notably producers, demanded that the MPEA voluntarily agree to

restrict imports to below the two-hundred figure. The MPEA, backed

by the State Department and its representatives in West Germany,

rejected such proposals on economic and political grounds. In 1954,

for example, the German industry asked that American imports be

limited to 160 and that certain taxes be levied on the earnings of

American pictures in the market. Neither proposal materialized. In

later years, West Germany tried to set an age limit on American films

to discourage the importation of old pictures previously unreleased in

the West German market. This plan also was thwarted. In addition,

guaranteed the distribution of German films in America, or a subsidy

which would enable the industry to establish a distribution and pub-

licity office in the United States. This proposal, to quote an American

industry representative, was "shot down immediately."

The success of the American program is evident because at no time

has the importation of American films officially been limited in West Germany. The only restriction which has ever applied was the "German's Agreement," a voluntary measure permitting American companies to bring into the German market almost twice the number of films they had been bringing into France where import controls were officially operative. In reality, the American industry had free access to the German market. The campaign in Germany was of a preventive nature, designed to head off restrictions before they could become official.

This should not imply that efforts against potential restrictions were unique to the West German market or that they functioned only in the immediate postwar years. The 1959 film agreement between the MPEA and Italy, for example, called for similar protection in that market. An appendix to the agreement bound Italian film authorities to take all steps necessary with the Italian government to insure that there would be no changes in Italian film legislation which would affect unfavorably activities of the MPEA and its members in Italy.

Moreover, the Italian film industry, through ANICA, pledged to abstain from demanding legislative measures which would further restrict or place new burdens on the importation, dubbing, or distribution of films belonging to MPEA member companies.¹⁸

In 1953, Henry P. Pilgert wrote that "the German motion picture industry is still in a state of uncertainty and insolvency."¹⁹ That statement could be made now with as much truth. The second war, in destroying the German war machine, also largely destroyed the film industry which had helped to support it. The absence of film strength in postwar West Germany gave the American industry an opportunity to attempt imposing its own conditions in the market. One writer, formerly attached to the headquarters of the United States Forces in the European Theatre, has contended that the

[American] industry, through its European representatives in Paris and on the staff of Military Government in Germany as distribution experts, made serious efforts to convince occupation authorities that it be allowed to establish what would in effect have amounted to a monopoly of not only motion picture distribution, but of production and the ownership of theatres as well. The industry even interposed objections to the showing of German films for fear of competition. The industry was induced to oppose the showing of German films by a desire to have its own control of the market in Germany.²¹

When the last twenty years of European film history is reviewed today, the usual conclusion is that West Germany has failed to show a

vital artistic and a viable economic production force. Ordinarily, this is attributed to the flight of film people from Germany in the 1930's, the moral drain on the country due to the war, and the reconstruction difficulties after the war. However, one must add to this list the foreign policy of the American industry, for it too was significant in shaping the postwar film climate in Germany, as well as in other nations.

of the box office revenue. Because they were powerful, the French would be consulted within the American market on such policy matters as distribution procedures, rental terms, censorship problems, taxation, advertising regulations, relations with television, import restrictions, and policy recommendations to the American government. French opinion also would be solicited on production matters which could comprise employment of non-American actors, directors, producers, and technicians, labor union problems in general, and export procedures for joint Franco-American productions. In effect, the French would be partially (and perhaps occasionally completely) responsible for policy decisions affecting the American industry and the American market. In addition, because of exhibition dependence upon their films, the French would be able to extract compromises so that the French position in the market would not be threatened.

This is a hypothetical situation for the American market, but it represents quite accurately the conditions in many European countries. It would be untrue, of course, to claim that the American voice is dominant everywhere in European industry affairs and that it is directed solely against interests of local competitors. In some instances, American membership in trade groups is compulsory. Moreover, American interests may run parallel to local interests and a triumph for the American view is a triumph for all. This is usually true in regard to film distribution and rental terms. In disputes with European exhibitors, American distributors align themselves with their European counterparts and the unity of view may be more than exhibitors can cope with.

The alliance of American and local interests has worked, on occasion, for the mutual gain of both parties. Italy, perhaps, typifies this most clearly. In 1954, Eitel Monaco, the director of Italy's film industry association, ANICA, expressed the hope that the cordial relationship between the American and Italian industries would develop from "a simple commercial interchange to a happy status of genuine co-production." Since that time, relations between the two industries have developed extensively. Not only have American companies done a considerable amount of shooting in Italian studios, but they have participated directly in making Italian films by providing production financing and also by distributing them. The same general conditions would hold true for Anglo-American film relations, although those have a longer history.

The advantages to be gained by belonging to a trade association are rather uneven when one examines the entire European industry.

6: The Foreign Policy of the American Film Industry: Representation and Revenue

Revenue from foreign markets is so essential to our film production companies that, as we have noted earlier, Eric Johnston once declared: "any action that would materially cut down on this foreign income would . . . threaten economic disaster for the American motion picture industry." Thus the securing of favorable operating conditions abroad has become an essential policy consideration of American companies. One way of achieving these conditions is through membership in foreign industry trade associations. But while American companies generally are members of European film groups, European industries have no representation in American trade organizations. This indicates the relatively small business done in the United States by foreign films, and that European producers who reach the American market have their films distributed by American companies.

Membership in a foreign industry association has important implications. A clue to these is evident if a situation is imagined in which, say, the French industry were a major supplier of films for the American market and these regularly obtained at least a 40 percent share of the market revenue. By virtue of its position in the United States, the French industry would have substantial representation in the Motion Picture Association of America and (assuming the French also were shooting films here) in the producers' association. The French, seeking to consolidate their position in the American market, would actively pursue a policy within these associations which would contribute to maintaining or increasing their security and their share

strength of the Bond is such that it can bargain effectively with the American industry. In the late 1940's, tension developed between the MPEA and the Bond, resulting in an MPEA withdrawal from the Bond. Rather than risk losing this market, American companies returned, outside the formal MPEA structure, and became members of the trade association.

Policy within the Bond's distributors' section has been determined by balloting, one vote per office. An American company with only a single office is given one vote while a small Dutch distributor with, say, two offices would receive two votes. By means of this system, local companies which may have a business turnover less than that of American distributors actually have a greater voice in determining policy. In the same way, the Bond's Board of Directors has had a membership of nine, but only two of them have been representatives of American companies. A source within the Netherlands declared that the Americans always will have a minority voice because "things are arranged that way." The result, as far as policy and business are concerned, is that Americans "cannot do what they want to."

To discover whether the American view is necessarily at odds with that of a local industry one must take into account the structure of the film industry itself. Interests of producers and distributors generally are opposed to those of exhibitors because the latter want to keep as great a share as possible of the box office revenue, while the former want to obtain as much as possible. A struggle often results with producers and distributors aligned against exhibitors. These general points can be illustrated by referring to conditions in France.

The distributors' group, *Fédération Nationale des Distributeurs de Films*, is composed of three types of distributors: American companies, French companies serving the entire country, and the many smaller French companies serving regions or small areas. As France is a major overseas market for American films, one would expect that difficulties often would arise between French and American interests and that the distributors' association would be the place where they were aired. This has not been the case, however. Officials within the French film industry declare there are few policy differences between American and French distributors because all distributors have common aims, and nationality really makes no difference. Their interests are substantially alike to generate uniform objectives and strategy. When conflict does appear, it often is between distributors and exhibitors. A form of "backing, for example, is not practiced by the

American membership in these groups can be compelled, and this is a means of controlling the activities of the American companies. Spain provides an example of this, because all distributing companies must belong to the *Grupo Sindical de Distribución Cinematográfica*. If a company is not a member, it receives no permission to distribute films and cannot operate. The *Grupo* is also the organization which recommends to the Spanish government how *baremo* points should be allocated and how import licenses should be distributed to members. Representatives of American companies declare that they really have little weight in formulating internal policy in Spain. In talking about Spanish distributors, one American representative stated that "they dominate everything, they are dominant in their own market." The situation in Spain is such that even the MPEA does not maintain a formal organization, office, or staff there. When conditions warrant, the MPEA will have its representative in another country go to Spain temporarily for negotiations or it will attempt to resolve difficulties by working through the American embassy in Spain." It is said that Spanish authorities do not like "little groups" and want to have all the distributing companies within a single organization. The only connection among the American companies operating in Spain is an MPEA "informal board" which meets as required to consider the American position in the country and to develop a common opinion among the member companies. Nonetheless, the American industry has little to say directly about what is being done in the Spanish market. The evidence to support this is the *baremo* system by which the American companies receive consideration no different from that accorded to Spanish distributors.

The Netherlands is another country where membership in the local film industry organization is compulsory. The difference from Spain, however, is that the Netherlands has a much smaller film production industry and that controls on the distribution of American pictures have not reached the level they have in the Spanish market. The overall industry association in the Netherlands is the *Bioscoop-Bond*, essentially a "closed shop" as far as trade and business are concerned. The *Bioscoop-Bond* brings together, under a single roof, production, distribution, and exhibition. Members are pledged to do business only with members. If American companies do not belong to the *Bioscoop-Bond*, Dutch theatres will not exhibit their films. Organizing and regulating the film trade in the Netherlands in this fashion insures economic stability of the local industry by controlling the number of theatres and the distribution terms on which films are offered. The

when policy was developed for all distributors, it was observed that it generally originated with American companies and that others merely followed, recognizing that what was good for Americans also would be good for them. It seems that because American companies supply the most films and are the greatest money earners in the Belgian market, they are in a position to deal more effectively with exhibitors than the smaller and weaker French and independent distributors.

The drive by American distributors for higher film rental fees has been linked in some cases with their membership in local trade associations. As the number of American produced films declined and the investment in them increased, American companies found that returns from box offices across Europe were inadequate to support this more costly style of production. While rental terms of 30 or 35 percent of the exhibitor's gross may have sufficed when film budgets were small, they have been deemed inadequate for multimillion dollar pictures. So, American distributors have pressed for greater portions of the total box office revenue.

In Switzerland in the early 1960's the exhibitors' and distributors' associations were locked in battle for more than three years over film rental fees. Exhibitors had agreed among themselves not to accept a film for which rentals would be more than 50 percent of gross receipts. This rate was the ceiling for "special" films, generally longer, more extravagant, and more costly than "regular" pictures which were rented at a lower percentage. While exhibitors had established this ceiling, distributors were engaged in trying to destroy it completely, or at least moving it to a higher level of, perhaps, 60 or 70 percent. When negotiations between exhibitors and distributors reached an impasse, the matter was taken to Swiss courts by the distributors' association. It is reported in Switzerland that about half the funds collected to support the campaign came from American distributors. In the Association Suisse des Distributeurs de Films, however, there were some forty members but only seven of these were American distributors or representatives of American distributors. These companies, by virtue of American leadership in the realm of expensive film making, had the most to gain from a victory and were the greatest financial contributors to the action.

The campaign for higher rental terms also has existed in Norway. Immediately after World War II, there was a drive among Norwegian distributors for an increase in the rental fee which was 30 percent of the exhibitors' gross regardless of the type of film being offered.

Americans only or by the French distributors only. Both nationalities have used it, and for the same purpose—to guarantee the placing of as many of their films as possible. Concerning rental terms, distributors, regardless of nationality prefer to offer films on a percentage basis, while exhibitors prefer to rent pictures for a flat fee. Thus, many differences which do exist within the industry would be there even if American companies were not present, because they are built into the structure of it. The battles are between wholesaler and retailer.

But this does not deny that American companies are powerful and can be instrumental in affecting policy decisions. When movements are started which could threaten their position in overseas markets, they are resourceful and can bring sufficient pressure in the appropriate places to reduce the potential harm. The role American companies play in financially supporting foreign trade associations is one through which such pressure can be exerted. In Belgium, for example, the *Chambre Syndicale Belge de la Cinématographie* receives more than half its operating funds from American companies which belong to it. This association is composed of three units: American companies, French companies, and local independents. Each member contributes to the association a fee based on its business turnover. In recent years, American companies have contributed about 60 percent of the association's operating funds, the French companies about 25 percent, while the remainder has come from the independents. The voting process within the organization is not based on revenue contributed; rather each of the three groups has one vote on the council which makes final decisions on distribution policy questions. Although American companies are numerically inferior as far as number of offices maintained is concerned, they have a one-third voice in determining policy for the organization, and the same weight in balloting as the three dozen French companies.

While this is true for the formal structure of the organization, the American voice is even stronger if the association is considered on an informal basis. An American industry representative in Europe declared that officials of the association clearly recognize the power and position the American companies have in the Belgian market. He noted that the association's leadership is aware of the American companies' opinions and has not actively pursued matters which would work against their interests. This spokesman felt the money contributed by American companies for support of the association was a factor which carried great weight with its leadership. In addition,

declared that "we have to thank them [the Americans] for what they have done."

The Norwegian episode was mirrored a few years later in Denmark and in that campaign the American industry revealed another plank in its program for foreign operation—the boycott. The drive in Denmark began very much as it did in Norway. American distributors asked local exhibitors for an increase in film rentals from the 30 percent rate which prevailed. Danish exhibitors refused. The position of the MPEA was that the price structure in Denmark was below that existing in Norway and Sweden and that it would be difficult to continue to get 40 percent in those markets when Danes were getting the same films for 30 percent.

Discussions between American distributors and Danish exhibitors brought little result. To break the deadlock, the MPEA declared that its members would no longer offer films for exhibition in the Danish market. This move, announced in May, 1955, was based on the belief that starving the theatres in Denmark would bring them quickly into line. The MPEA felt that withholding American films from the market would create a shortage, that attendance would fall, and that admission revenue also would tumble. The American companies believed they could sacrifice the returns they were getting from Denmark (about \$1,000,000 a year), but that Danish exhibitors could not cope with the lack of American films. American distributors expected the boycott to last three months at the longest.

The MPEA, however, failed to recognize several points. First, the production of Britain, France, and Italy was substantial enough to fill that portion of screen time which had been occupied by American films. In effect, the boycott did not create a shortage of films; it only created a shortage of American films. Second, while MPEA members were obliged not to do business in Denmark, there was no such restraint on American independents. The boycott, therefore, did not completely block the exhibition of American films because independent-succesfully rented a limited number of them. Finally, the shortage of American films gave added incentive to Danish producers. Without competition from a great number of American pictures, local producers captured a greater share of box office revenue which strengthened their position in the market.

The mechanics of resolving the problem in Denmark were strikingly similar to those in Norway. When distributor-exhibitor negotiation failed, the MPEA took its case to higher levels—the Danish government. The argument reportedly employed by the MPEA was

American films were entering Norway on a restricted basis due to currency exchange difficulties within the country but were also being rented for 30 percent.

In late 1946, an American request for a higher rental percentage was rejected, but rather than lose the market completely, American companies continued to send films to Norway on the prevailing terms. But agitation for higher terms continued, and in the early 1950's, as one source stated, the MPEA "officially" joined the fight by calling on the American State Department and the American embassy in Oslo for assistance. Extensive discussions were held on the governmental level, several steps above the usual distributor-exhibitor level. Involved were representatives of the State Department and embassy and representatives of the Norske Bank, and the Norwegian government. After what has been called "strenuous negotiation," the rental fee was increased from 30 to 40 percent of the exhibitor's gross with a possibility that "special" films could receive 45 percent. This price structure became effective in 1953 and has prevailed since that time.

When the increase of rentals was approved by the Norwegian government, it had to instruct theatres to accept the new terms distributors would be asking. The theatres, many of them municipally owned and operated, had no choice but to agree to the new rental structure. Tied to the higher fees was a stipulation by the Norwegians that American films offered in other markets would be offered in Norway. This meant that a film which might be rented for 65 percent elsewhere had to be offered in Norway even though it could receive no more than 45 percent. There were occasional attempts by American companies to withhold films from Norway because of this ceiling. One American major elected to withhold a film, but the municipally-owned theatres countered by refusing to exhibit all other films from this distributor. As a result, the company was out of the market for several months, but finally returned and agreed to offer the film for the maximum rental.

The successful campaign for higher rentals can be attributed largely to the activities of the American companies and the assistance they received from the American government. American distributors were able to muster enough force in appropriate places, something which Norwegian distributors were not able, or did not want, to do. However, the change in the price structure has benefited both American and Norwegian distributors. The feeling within the film industry in Norway is that the change in rentals never would have happened without pressure by the American companies. One person, in fact,

that American films actually helped strengthen the local film industry. Perhaps the words used were the same as those spoken by MPEA executive vice president Ralph Hetzel when he told an industry conference in the United States that

... the time has come, now that the post-war era of distorted economies is coming to a close, to make it clear to those countries who represent the overseas market for American films that the export of U. S. films provides a healthy and much-needed stimulus for their own economies.

Mr. Hetzel believed that when it is demonstrated to "responsible foreign officials that a free flow of American films is a boon to the native theatrical industry" by providing it with more exhibition revenue, then "their attitude towards American film imports will become much more liberal."

Termination of the boycott has been attributed largely to discussions between the American ambassador to Denmark on the one hand, and the Danish Prime Minister, Finance Minister, and head of the exhibitors' association on the other. They yielded an increase in rentals whereby Danish theatres were to be divided into three classes, the first to pay 40 percent, the second 36, and the third 30. In addition, each company could offer two pictures per year on a freely negotiable basis with rentals as high as 70 percent of the exhibitor's gross.

The boycott of the Danish market ended in May, 1958, three years after American companies withdrew. It had lasted considerably longer than anyone might have imagined and while it achieved its goal of higher rentals it revealed that boycotts, if they could be used at all, were risky. The trade press reported that the "bitter fact is that the industry can no longer afford to impose embargoes" because it can no longer "muster the kind of unity that's needed [and] can't afford to take the kind of losses which the quitting of markets entails." The report observed that the boycott of Denmark (and the simultaneous one of Spain) exposed "a growing weakness of MPEA" and the fact that "it's possible to play the various companies against one another." What the report did not mention, but what is equally valid, is that the decline in American film production meant there were fewer American pictures to withhold from markets. The numerical dependence upon American films is diminishing and future boycotts will be ineffective if the purpose is to starve foreign exhibitors for the American product.

While the campaign in Denmark was conducted outside the distributors' association and centered on increasing rentals, American membership in local trade groups has been used in other countries to head-off moves which could hinder activities of American distributors. The importance of belonging was brought to light as early as 1950 when American distributors in West Germany applied for membership in the Spitzenorganisation der Filmwirtschaft (SPiO), the central trade association for the German film industry. American companies felt membership in SPiO would be vital for their position in the market because the association's

job is to make recommendations to the German government on all things affecting films. The Americans, as members, have a full vote equal to that of any of the German delegates and thus have a right to cast a veto, as all decisions must be unanimous.

In addition to voting power, American companies thought of other benefits. Belonging to SPiO meant that Americans

at all times know what the German industries are thinking and planning and can head off any recommendation to the Reich government that appears dangerous to American interests. It amounts to a veto before the fact, and the companies are very pleased that they have been able to get into SPiO at all.

American distributors were convinced that their joining SPiO would "result in improved German-American film relations"—especially because the Germans "have always been leaders in . . . protecting their own industry at the expense of Hollywood."

These statements are not mere theoretical observations of the power American companies could hold in the German market. On the contrary, they demonstrate the technique American distributors have used to secure a firm position there. While the above comments were made in 1950, the following decade of activity demonstrated that belonging could be a useful tool in the American industry's foreign trade journalist that there were "continuing efforts on the part of some protectionists to curb our position" in Germany. However, he went on to declare:

I feel that while we have to be alert against any moves to trim our position, nonetheless we can be reasonably confident that we can thwart any such moves. (Italics mine)

fulfil one or the other of these requirements; i.e., he cannot be the one person as mentioned above who need not fulfil them.⁹

This suggestion struck at American companies who, although employing the legal minimum number of British technicians and actors in their films, had often used American producers and directors. It meant that British nationals, nominally at least, would have more control over "British" film production and perhaps that more British producers and directors would be employed. According to an American industry representative in London, the BFFA recommendation was "dead against our interests" for it would have placed new obstacles in the path of drawing on the British subsidy fund.

That this was the intent of the suggestion was apparent when the Federation of British Film Makers (FBFM) submitted its recommendations to the Board of Trade. The FBFM, criticizing the Association's memorandum, stated it was designed to "impede Anglo-American co-operation" and could be regarded as a "retrograde step" for the British film industry. In outlining the need of occasionally employing more than one foreign producer and director, the Federation declared:

There are some cases, not large in number but generally of considerable importance, when finance will be available for a film with a foreign producer and a foreign director but will not be available otherwise. We think it quite unreasonable that drastic action should be taken because of a handful of cases. . . . We simply cannot afford to drive away from our studios these important [Anglo-American] productions.¹⁰

The key to understanding the position taken by the Federation, ostensibly an organization for British producers, is contained in the group's annual report for 1958-59:

A second reason for the formation of the Federation was the feeling that an important body of makers of British films had been isolated because they had American finance or distribution. With a membership that includes representatives of some of the major Anglo-American organisations, the Federation has helped greatly to influence the climate of opinion and to reduce the old suspicions and hostility. In its submission to the Board of Trade last year, in the further submissions of this year, and in many detailed ways the Federation feels confident that it has done a great deal to encourage the development of Anglo-American co-production.¹⁰ (Italics mine)

More recently, an American representative in Germany declared that if there were ever a showdown in the distributors' section of SPIO, American members could block any policy they felt was unfavorable to their interests. This source indicated that through annual dues paid to the distributors' section, American companies were indirectly supporting SPIO.

The advantages of association membership also were demonstrated in the United Kingdom when the government and the industry were drafting the 1960 Films Act. This legislation was to replace earlier laws which regulated the film industry in the United Kingdom. An important part of the Act was the definition of a "British" film, for on it hinged the subsidy allocated to producers. On this point, American companies had a direct interest, for their subsidiaries in Britain were making pictures which at that time were meeting the official and legal requirements for being labeled "British." As such, they were eligible for government-approved subsidization. Any modification in the definition of a "British" picture which would make it more difficult for films of American companies to acquire this label would work against the interests of American producers.

In 1958, the British Film Producers Association (BFFA) submitted a memorandum to the Board of Trade setting forth its position on the proposed legislation. Among other points, the BFFA felt the "British" label should not be awarded on the same basis as it had been in the past. The Association believed that employment of non-British directors and producers should be more limited, and that this, when applied stringently, would make it more difficult for the productions of some companies to be declared "British" and have access to the aid fund. The BFFA declared it was improper for all films to have the advantages of the production subsidy, an implicit attack upon American companies who produced "British" films and drew payments from the production assistance fund. The Association believed the subsidy should be used in the way in which it was originally intended—to support the production of British films, not to support overseas shooting by American companies. The BFFA recommended to the Board of Trade that in order to have a film declared "British"

. . . all the producers and directors of a film, except one, by whatever titles they may be described, must be of British nationality, or if not of British nationality, must be of British nationality wherever domiciled, or if not of British nationality, ordinarily resident in the Dominions. We also urge that if one person on his own fills the position of sole producer and sole director, he must

It would seem that the organization was a vehicle for the dissemination of opinion favorable to American interests in the United Kingdom.

With the Federation taking a public stand opposing the BFFA's recommendation, other parties were at work on different levels. The trade press reported in December, 1959, that Board of Trade officials had been meeting with certain unnamed "leaders from various sections of the British film industry" who explained to the Board that the BFFA's proposal could be "interpreted as having un-American connotation."¹¹ To make certain that the BFFA's suggestion would not be adopted, pressure was brought to bear directly on the Association. A film industry source in Britain has revealed that a statement was presented to the BFFA by an influential American representative. It is reported to have pointed out that certain American companies had recently joined the Association and it requested the BFFA to amend its position regarding employment of foreign producers and directors. A short time later, the Association withdrew its recommendation to the Board of Trade and the proposed limitation did not find its way into the 1960 Films Act. Some of the companies which joined the BFFA between March, 1959, and March, 1960, are Twentieth Century-Fox Productions Ltd., Walt Disney Productions Ltd., United Artists Corporation Ltd., and Warner Brothers Productions Ltd.¹²

While rental fees and foreign legislation have been important, blocked earnings also have received priority attention in the American industry. The serious balance of payments situation in the decade after World War II caused European governments to prohibit American companies from withdrawing the money their films had earned. When it is remembered that some markets could yield more than \$20,000,000 annually, it is apparent that sizable amounts of earnings were blocked overseas. Initially, this created a problem for American producers because they were denied access to their earnings—the money required to repay loans, to pay for future production costs, and to show a profit.

The industry dealt with the problem in several ways which included using frozen revenue for investment in foreign non-film industries, for the support of overseas offices and business operations. Another way of disposing of blocked earnings was through what the industry termed compensation deals. This was a broad heading for other various methods of exchanging blocked currencies for other currency and eventually American dollars. The exchanges were not

based on par value but involved certain discounts which a middleman took as commission for arranging the transfer. The companies lost some money, but on balance, felt they had most of the revenues their films had earned. In many cases, the compensation deals became elaborate and, in addition to exchanges of money, included the buying and selling of goods unrelated to the film business.

The extent to which American companies have gone to withdraw their frozen revenue was disclosed in a dialogue between Eric Johnson and Senator J. William Fulbright in 1953.

SENATOR FULBRIGHT: I was a little surprised that you were able to sell \$200,000,000 worth of movies. I don't know where they get the dollars for that when there are so many things that they want. . . .

MR. JOHNSTON: As you know, Senator, we carry on very extensive trading operations all over the world in order to get our money out. We have done such things as buy wood pulp in Scandinavia for Kroner, shipped it to Italy in exchange for lire, and there we have used the lire to build or rebuild ships to go overseas to be sold for American dollars; we even raised a sunken French tanker in the harbor of Marseilles and repaired it, paying for it with French francs, and shipping it to the United States where it was sold for dollars; we have made Scotch-type whisky in Chile, sold it in America for American dollars. All in all, we have a very extensive organization constantly working to get our dollars over the hurdles that beset you nowadays in foreign trade.

SENATOR FULBRIGHT: You are very ingenious.

MR. JOHNSTON: We have to be. That is the only way we can get our money out, I will assure you.¹³

Other arrangements with blocked earnings centered on the shipbuilding business in Italy. Beginning in 1953, as part of film agreements between the Italian and American industries, provisions were made for the use of blocked American revenues. The initial agreement provided that about 25 percent of these earnings could be invested by American companies in Italy's semi-official shipbuilding company, Finmeccanica. The company then guaranteed to repay a certain amount of American dollars, but at a discounted rate, which was reported to be about 14 percent. Evidence suggests that the American companies used this arrangement on several occasions and for substantial sums. By July, 1954, American companies were said to have just completed their third compensation deal with Finmeccanica for \$1,000,000.¹⁴ Fourteen months later, it was reported that deals

can location shooting and direct investment in British and French film production.

The American film industry's foreign policy, as it pertains to matters of representation and revenue, has brought the companies into contact with overseas trade associations, into conflict with foreign economic interests, into close quarters with European governments, and into involvement in noncinema industrial activities. The American film industry is truly an international business.

with Fimmeccanica had yielded around \$6,000,000 for the Americans and that negotiations were under way for additional transfers of \$3,000,000.¹¹

This method of withdrawing funds was perpetuated and written into later film agreements. The pacts permitted American companies to dispose of their blocked Italian earnings not only through the building of ships but also in the construction of hotels or other works of national interest to Italy.¹² The agreements, as did earlier ones, authorized American companies to spend their blocked funds by investing in Italian film production. That American companies at that time were disposing of sizable portions of their earnings through compensation deals, and not through local film industry investments, was apparent when the director of ANICA brought the situation to light. In early 1958, Eitel Monaco suggested that compensation deals through Fimmeccanica be ended because blocked earnings, originally intended for financing local film production, were being absorbed by shipbuilding and other non-cinema efforts. The problem eventually was resolved as Italy began to liberalize the remittance of American earnings, and by 1960 it was reported that hardly any American revenues were still blocked. In the same year, a source in Italy revealed that during the preceding ten years American film companies had channeled as much as \$40,000,000 through shipbuilding deals.¹³

In other countries where earnings were frozen, American companies had opportunities to convert their funds through non-film-industry channels. In Great Britain, as a provision of the film agreements, American companies had permission to use their earnings for the "acquisition of real estate, the construction or renovation of buildings, participation in approved industrial or commercial enterprises, construction, acquisition and operation of hotels" and for participation "in travel and transportation agencies designed to facilitate and encourage tourist travel."¹⁴

The 1948 film trade agreement between the French and American governments also provided for the disposal of blocked American earnings in other than film industry enterprises. Frozen funds could be used for the "purchase of long term shares," the "purchase of French industrial values . . . , investment in French industrial or commercial businesses," and for the "purchase, with a view to export, of goods and materials . . . considered by the French government as being profitable to the French economy."¹⁵ In the case of Great Britain and France, it is believed that the largest share of blocked earnings was used for film industry purposes including the expenses of Ameri-

tion of the role film could play in the government's propaganda work. In a Senate speech, he discussed film, radio, and printed matter, claiming that "for all practical purposes, it may be said we are not using them at all." He declared:

Their impact today, in our interests, is that of a midget. I make an exception of the Hollywood motion picture, with its varying types of impact. They do have the potential strength of a giant, and my plea today is that we give them a chance. Nothing equals the motion picture in its capacity for gripping and holding masses of people, and communicating information and attitudes in vivid, remarkable form. . . . We need to get the pictures. We do not have them now. We need to show them. Their impact can indeed change the fact of history.¹

Senator Benton introduced a resolution asking that "the international propagation of the democratic creed be made an instrument of national policy. . . ."

With governmental needs favorable to employment of film for propaganda purposes, the film industry was quick to support this policy. If the government actively pursued a wider dispersal of American films throughout the world, the industry was likely to gain in a business sense from the additional revenue such dispersal brings. The dual advantages were recognized by the film industry, for it realized that a push from the government could be useful in developing new markets and for making old ones yield attractive revenue. To assist the drive for favorable operating conditions abroad, the industry had to follow up the government's belief that film could be useful for propaganda. Spyros Skouras of Twentieth Century-Fox once urged the industry to "work harder and harder to create [a] missionary spirit." "This will not only be of great importance to the motion picture industry economically," he said, "but it will also enable us to diligently discharge the sacred duty of our great medium to help enlighten humanity." Skouras added that

it is a solemn responsibility of our industry to increase motion picture outlets throughout the free world because it has been shown that no medium can play a greater part than the motion picture in indoctrinating people into the free way of life and instilling in them a compelling desire for freedom and hope for a brighter future. Therefore, we as an industry can play an infinitely important part in the worldwide ideological struggle for the minds of men and confound the Communist propagandists.²

7: The American Film Industry and the American Government in Postwar Germany

Broadly speaking, the relationship of the government and the film industry is one of mutual support. The government perpetuates the environment in which all industry operates, and industry has an interest in preserving the existing social order. The film industry, which reaches man's mind and emotions, can be a powerful ally of government and the economic order, both at home and abroad. The belief that film is a useful instrument of propaganda evolved in government circles during the last world war and grew to maturity in the late 1940's and early 1950's. At this time, occupation forces in West Germany sought to reeducate the German people. How was the difficult task of destroying Nazi ideas and inculcating those of democratic capitalism to be accomplished? How was Communism to be combated? American films, embodying "our" point of view, seemed an instrument which could be aimed at both opponents.

Relations between government and the film industry are tenuous, however, as their aims may not always coincide. The profit motive on the one hand, and the political motive on the other, may pull the two apart. When the objectives of the two groups are similar, however, they may work together actively for mutual gain. Even when their ultimate purposes are different they may tend to use identical means, resulting in an alliance between private and public interests.

There have been repeated pleas for emphasis on film as a propaganda tool. As early as March, 1950, Senator William Benton, in calling for a "Marshall Plan in the field of ideas," urged more recogni-

The Skouras statement is a call to the industry to have its films circulated more widely so that profits can be larger and Communism can be defeated.

While the government was quite explicit about why it wanted to have American films circulated abroad, the industry preferred to verbalize its own aims even though in tacit agreement with those of the government. The film companies have not actively enunciated the overt propaganda qualities of their products because, basically, they prefer to maintain their own control over content and not be confronted with the charge that they are shaping content to conform with government directives. The companies often cooperate with the government by erasing from their films undesirable elements rather than by purposely injecting types of content which propaganda would call for. The belief behind this is that films already convey "our" point of view and that no further positive steps need be taken to emphasize it.

Such thinking reflects the basically business orientation of the companies, for their initial allegiance is to the production of films which will draw audiences and generate revenue. If the same pictures also can carry a message beneficial to the government, so much the better. Basic conceptualizations of the social role of communications in America are involved. There has been a tradition of freedom of communication and separation of government from the operation and content of mass communication. This "hands off" policy—freedom of the press—is reflected in the distance between the film industry and the government when production values and content are involved.

Eric Johnston once declared that "Hollywood is not in the business of grinding out pictures nearly labeled for use as weapons in the propaganda war." "Hollywood is in the entertainment business," he added, "and that's precisely why our films are loved and believed by people abroad." This concisely states the film companies' belief that a closing of the gap between industry and government is not likely to be useful for either party because credibility will decline and possibly revenue. Hollywood has been intent on stressing that its pictures can do a good job abroad within the production framework in which they are currently being made. There is also the suspicion that if Hollywood agrees to government planning of content with foreign audiences in mind, the next step could be planning of content with domestic audiences in mind.

That Hollywood wants to cooperate, but independently, is implied in a statement Eric Johnston made to a Senate committee in 1953.

Pictures give an idea of America which it is difficult to portray in any other way, and the reason, the main reason, we think, is because our pictures are not obvious propaganda. They are completely free pictures, and they reflect the freedom under which they are made and the freedom under which they are shown." (Italics mine)

... We have advised foreign managers to be careful and set up some criteria as to what pictures should be sent to areas and they have done that on their own. I know they have a keen awareness of what pictures should go into what areas, and whether a picture is harmful and whether it will do a great deal of good. They are doing the screening themselves. ... There are a good many of our pictures that are not shown overseas. ...

Senator J. William Fulbright was on the committee which heard Mr. Johnston's statement. In light of the film executive's comment, Senator Fulbright pushed the matter further and the following dialogue resulted:

SENATOR FULBRIGHT: What determines whether a picture is sold abroad or not? It is a commercial determination, is it not—what you think will sell?

Mr. Johnston: Yes. Drama sells abroad better, but I am not an expert. ...

SENATOR FULBRIGHT: You don't have to describe it. What I mean is that your test, the criterion you use, is whether or not it will make money. Isn't that your objective?

Mr. Johnston: Of course, we are a commercial enterprise.

Hollywood cooperates with Washington but only to the extent that it does not forfeit its autonomy. A vice president of Paramount Pictures, in discussing film production, has stated that

... we try to find out whether the subject matter that we are handling would be an offensive matter in the area where our Government is having problems, and, if so, not to do it. We try, where we can, to inject things that will be an expression of friendliness in relation to that country and those people. We do that as Americans. We do not do it under the demand or under the control of anybody in the Government.

There is another element involved in this problem of propaganda and it is the obvious fact that American audiences also have to see

I don't know of any industry giving away cloth or clothes or steel or anything, but we gave away films, not only gave them away but paid for the means of showing them in dollars out of our own pockets, at an expense of about \$500,000 a year.¹²

On the surface, Mr. Johnston's statement claims that the film industry was an active participant with the government and that the industry's role was philanthropic, not profit seeking as one would expect. These assertions, however, must be matched with the record.

The exhibition of films was prohibited in Germany until the end of July, 1945, when twenty theatres were allowed to open in the American zone. By the middle of September, about fifty theatres were operating and showing American films with German subtitles. The program for the reopening of houses, however, did not proceed as rapidly as was desired. One writer, active in Military Government affairs at the time, has stated that "the real difficulty in getting more motion picture houses opened lay in the short supply of films."¹³ The Military Government did not have enough different pictures from which to select, and of those it did have, there was a shortage of prints. Even though theatres could be reopened, there were not enough films available to show in them.

The problem might have been solved except for "the inability of the American motion picture industry to co-operate along policy lines laid down by the United States Government for the occupation of Germany."¹⁴ The film industry and particularly the majors, by controlling the reservoir of thousands of pictures, hoped to receive concessions from the Military Government which would give it a dominant position in the German market. In partial response to this strategy, military officials decided they would have to authorize the exhibition of certain German films which had been declared politically harmless.

Thus, in December, 1945, a small number of German features began to be shown to alleviate the film shortage. In exchange for providing more films, the American industry was making demands on the Military Government which "were so inconsistent with occupation policy" that the industry and the military "failed to reach a mutually satisfactory agreement."¹⁵ The basis of industry demands centered on how it would be paid for its films, and how it could dispose of these earnings. Under the Military Government's program, revenues from the exhibition of American films in West Germany were held in blocked accounts with the Military Government. It had to approve plans the companies had for withdrawing and spending these reichsmarks which had value only in

these films. This involves a matter of balance and emphasis in film making, for a picture made with foreign audiences in mind can flop at home just as the reverse can be true. That the industry has to consider both ends is apparent in two statements made by V. Frank Freeman, a vice president of Paramount. In testimony to a Senate committee in 1956, Mr. Freeman said:

Paramount and all of the other companies must produce motion pictures which will have universal appeal. . . . Thus, the American motion picture is international and will so remain. . . .¹⁶

A few minutes later he declared:

We have always designed our pictures primarily and essentially for the American market, and the record of all producers will, I think, show that.¹⁷

The extent and success of cooperation between industry and government when profit and propaganda motives are at stake is illustrated by events in postwar Germany. In considering Germany, the Allied Powers believed that simply to disarm the country would not be enough. They felt that eradication of "her false ideologies of territorial nationhood and the right to make war for purpose of territorial acquisition [were] just as important as curtailing Germany's physical ability to make war."¹⁸ This aim called for an intensive program of propaganda designed to reeducate Germany and for controls over all media of communication. Products and representatives of American and the know-how they could offer.

The American film industry had in its libraries thousands of pictures which could be placed at the disposal of the Military Government for use in the reeducation campaign. In recalling this period and its problems, Eric Johnston once observed:

In response to urgent requests of top United States occupation officials, American feature pictures were sent into Germany. . . . as soon as the fighting stopped. . . . American leaders recognized that these non-propaganda pictures would assist during the critical post-war period in conveying to the people of the occupied areas an understanding of American life and democratic institutions. The films were the first real contact between America and the former enemy. . . . The film industry provided the pictures at no profit to itself but rather at an actual loss for out-of-pocket expenses.¹⁹

Germany. What the companies did not like was that they could not convert their marks into dollars and that the Military Government would not approve their plans for spending them in the German market.

Because of the difficulties of retrieving exhibition earnings, the American industry was not willing to increase its flow of films to Germany to aid the reeducation program. A source within the American industry has revealed that between July, 1945, and December, 1946, only forty-three features were offered to the Military Government. By May, 1947, almost two years after the end of hostilities, only fifty American films had been released in Germany out of the thousands in Hollywood libraries. The "urgent requests" of Military Government officials were answered by the industry with a trickle of films. Late in 1945, General Robert A. McClure had a number of conferences with film industry leaders in the United States in an effort to resolve the difficulties which were then impeding the reeducation program. When General McClure returned to Germany, he could report little except that the industry had shown a desire to "utilize the military occupation to establish an exclusive position for American films and American distribution machinery."¹¹ He felt the government had only a moral obligation to aid the companies, and then only if they cooperated with its policies and objectives. By the summer of 1946, it became increasingly apparent that the film industry was not likely to yield, and might ultimately refuse to make any films available to the Military Government.

There were several demands made by the American companies on occupation authorities. The MPEA insisted that only it should have the right to export to Germany and that only its members should be permitted to release films. "This ran straight into strong opposition from Military Government," according to one writer, "which wanted to include independent producers in order to obtain the best product."¹² The MPEA, legally empowered to monopolize the export business for the American industry, was attempting to force this privilege on the Military Government, but during a period when it hardly seemed justified.

The companies also were demanding that they be allowed to use their frozen marks for what amounted to economic penetration of the West German film industry. The companies asked to buy theatres in Germany, to produce newsreels for use in Germany and elsewhere, and to buy German raw stock to make prints of their own pictures. In addition, the American companies expressed an interest in obtaining

the Bavarian Filmkunst studios for their own production purposes. The Military Government, meanwhile, had prohibited American companies from purchasing or investing in real estate and from buying items in short supply such as automobiles and typewriters.

These and other proposals made by the American industry ran contrary to the objectives the Military Government had in mind. The latter called for the rebuilding of a film industry that would be German in operation and in financial support as well as politically and economically independent. The Military Government felt the industry had to be rebuilt as a German enterprise, not as an American subsidiary, and that there should be no favoritism involved in occupation policies. As a step toward this, German film makers with non-Nazi records were encouraged to ask the Military Government for permission to start production companies.

Hollywood continued to use its control of films as a bargaining weapon. Military officials found themselves in a somewhat helpless position because they needed pictures and these could be made available only by the companies. When finally the policy was reformulated it allowed American companies to engage in production and distribution of films in the American zone of Germany. However, it continued to forbid American investment in theatres, and prohibited the acquisition of German raw stock for the making of prints for export trade. The effect of the new policy adopted by the Military Government was to give American companies entry into two of the three levels of the German film industry—production and distribution—and to establish a virtual monopoly of film distribution in the American zone. Plans for film production in Germany by American companies were never undertaken on a large scale, for reasons to be discussed in a later chapter.

In February, 1948, the MPEA officially began distributing American films in West Germany, taking over the function of the Information Services Division of the Military Government. The MPEA expanded its own organization and established seven main branches to service theatres in the American, British, and French zones. The earnings of American films, however, continued to be frozen, but instead of going into an account under the Military Government, they fell into an MPEA account. Regardless, the question of withdrawing money from the market was unsettled and the American industry was still wondering how it would convert reichsmarks into dollars.

This problem touched other American media doing business in Germany, notably the print media. Some American authors, for exam-

ple, were reluctant to sell German publication rights to their work because they could not draw on their blocked earnings. This was a definite obstacle for the reeducation program, and officials in Washington took steps to remedy it. In 1948, the International Media Guaranty Program (IMG) was started as part of the Economic Cooperation Administration. The program permitted the converting of certain foreign currencies into dollars at attractive rates, providing the information materials earning the money reflected the best elements of American life. This was a decided advantage to the film companies for it allowed them to distribute and exhibit their pictures in difficult currency areas with complete assurance that some of the resulting revenue would be available to them in dollars. Implicitly, it expanded the number of markets which could be exploited by the American industry, and put an "official" label on Hollywood's work. American films could then go forward with the rank of ambassador.

At the time the IMG program was being launched, German currency underwent a reform and the official unit became the deutsche mark. This ended the Military Government's official control over the former reichsmark and the occupation mark. However, conversion of the new marks into dollars on the open market was not authorized and the MPEA companies would have continued to face the frozen earnings problem had it not been for the IMG program.

It should be stressed that IMG did not guarantee dollars for all American films shown in Germany. An American film was eligible to receive benefits only if it met criteria established by the Economic Cooperation Administration:

The films eligible for IMG coverage include only those which present a fair and essentially accurate picture of American life, or which, regardless of subject matter, have sufficient distinction of production, design, or acting, to reflect credit on the culture of the United States.²⁰

In short, IMG permitted conversion when films were deemed valuable for the message they contained. If a particular film was not approved, an American company could still distribute it in West Germany, but its earnings would remain blocked in marks. Even considering this feature, the scheme still benefited American companies and they rapidly increased their flow of films to the German market.

During the 1948-49 rental year, only sixty-four American films were released in Germany. In the following rental year the number jumped to 145, in 1950-51 to 202, and in 1951-52 to 226. The impact of the IMG program is apparent when we recall that between V-E Day and May, 1947, only fifty American films were released in Germany. In the same way, 278 American films were released from January 1, 1950, to April 1, 1951, a sharp contrast to the 170 released between V-E Day and the end of 1949. And these pictures were not necessarily new ones, for of the 448 American films released up to April, 1951, about 20 percent had been made prior to 1940.²⁰ The stimulus to release came from the availability of dollars, and the availability of dollars stemmed from a need for propaganda.

The first media contract executed by IMG was signed with the MPEA in December, 1948, and covered films released from August 1 to December 31, 1948. The value of this contract was \$230,000. It later was extended six months to August 1, 1949, and increased to \$457,000. The MPEA proposed to distribute during this period thirty prints each of forty-four black and white features, eight color features, and a number of shorts. In the six months to the end of 1949, IMG guaranteed \$636,000 for MPEA films. In 1950, contracts were signed for more than \$3,000,000 and when discussions took place for the 1951 program, the American industry suggested a further increase to \$4,000,000.²¹

The payment policy of IMG underwent some modification as the program functioned over the years, reflecting the amounts Congress appropriated for it and the way funds were divided among various media. The arrangement under the first motion picture contracts was for conversion of marks up to the actual direct dollar costs wholly attributable to the projects covered. Beginning in 1950, the guarantees were issued on a more liberal basis. In addition to the actual out-of-pocket costs incurred by the distributor, each approved film was eligible to have an amount equal to \$25,000 in earnings from exhibition converted from marks into dollars. According to industry estimates, these out-of-pocket expenses (for raw stock and the cost of the German language version) normally ran to about \$12,000 for each film. Thus, for every feature the IMG selected, it guaranteed to pay about \$37,000. That the American industry benefited financially from the IMG subsidy cannot be disputed. From the first contract, retroactive to August 1, 1948, until the expiration on February 28, 1953, of the last contract under which dollar conversion was provided,

total dollar payments by IMG to American film companies amounted to more than \$5,100,000.*

With the IMG program working, and with approaching favorable conversion of blocked marks into dollars, the American industry's interest in the German market drastically changed. Its policy became one of bringing into Germany as many films as it thought the market could absorb. Not only that, but the American industry thwarted the establishment of an import quota in Germany. Discussions in Washington between MPEA representatives and the State Department resulted in an order to the U.S. High Commissioner in Germany that the Department wanted no quota on the importation of American films. An official German quota never materialized.

The reluctance of American companies to send films to West Germany prior to the IMG program was a result of concern with revenue. Even the Military Government's objective, to reeducate Germany, was not sufficient incentive for the companies. The event which turned the trickle of American films into a torrent was, clearly, the initiation of guarantees by the American government. That the IMG program was lucrative to Hollywood was apparent when the House of Representatives considered an appropriation to the U.S. Information Agency in 1959. Congressman H. R. Gross attacked film industry lobbying in Washington and the IMG, declaring that through its payments the "Motion Picture Export Association has been given a pretty good ride on the international media gravy train."

While the exportation of films to Germany demonstrates one facet of industry-government relations, another area can be illuminated by an examination of the anti-monopoly issue as it existed in the postwar German film industry. At the end of the war, there existed no private film business in Germany. The entire industry had been organized by the Hitler regime under the government-owned UFI, a gigantic holding company which maintained control over its subsidiary, Universum Film A.G. (UFA).

The UFI combine represented a great economic power as it in-
* Examining all media involved in the West German program, from its inception until 1955 when it became inactive, we see that the American government entered into seventy contracts and made payments of slightly more than \$7,000,000. On this basis, the American film industry accounted for the greatest share of dollar conversions, about seven out of ten dollars. On a worldwide basis, from inception of IMG programs until June 30, 1966, American film companies received close to \$16,000,000 under the currency conversion provisions. Thus the film program in West Germany alone represented almost a third of all government payments to American motion picture interests. See: U. S. Senate, 90th Congress, 1st Session, Committee on Foreign Relations, Hearings, U. S. Informational Media Guaranty Program (Washington: Government Printing Office, 1967).

cluded not only production, distribution, and exhibition facilities, but laboratories, music publishing, script publishing, export companies, and other interests which carried the UFI influence into broader fields. Western occupation authorities recognized the dangerous power that a reconstituted UFI could exert upon postwar German business. They believed a monopoly in the motion picture business would not be consistent with the best interests of a new, democratic Germany. In contrast to East Germany where only one large company was authorized, the Americans, British, and French agreed to place the new West German film industry on a thoroughly competitive basis. This called for the restructuring of the entire industry and the destruction of the UFI trust. The Western Powers believed that the new German industry should be composed of small independent units. The three levels of the film business—production, distribution, and exhibition—were to be separated, and within each level there was to be competition among companies.

This policy was also in broad agreement with what the American industry desired in Germany. The industry preferred to see Germany become a free market and it felt this could not be achieved if UFI were to regain the strength it had during the Hitler era. A reconstituted UFI would have offered competition, especially in view of the American industry's desire to establish its own control in the German market. The MPEA was active in pressing for the destruction of UFI and for the sale of former UFI properties. Eric Johnston transmitted his association's concern to occupation authorities on numerous occasions. As *Variety* once reported:

With the monopoly powers of UFA under the Nazis still clearly in mind, MPEA doesn't propose to let this threat to one of its most valuable foreign markets go unchallenged. . . . In terms of dollar remittances, Germany in 1954 will deliver in excess of \$13,000,000.²³

The desires of the American companies in the UFI problem were concisely stated to this author by an American industry representative: "We would not want to see a monopoly here." In addition, American interests had expressed a wish to buy some of the UFI properties.

The policy of the western occupation authorities was put into effect as soon as the war ended, and continued during the immediate post-war years. Independent German producers were licensed in the three western zones and by 1948 more than twenty companies had been

replaced by the Deconcentration Committee. Yet by the middle of 1950 no action had been taken to destroy the UFI combine or, at minimum, to sell some of its appendages.

While the West German government was drafting its own film industry law, the High Commission went ahead with its plans to auction UFI properties. The first step began in November, 1950, and subsequent attempts did not prove fruitful. The official report from the American High Commissioner for Germany declared:

Extensive but unsuccessful negotiations have been held with various groups who expressed interest in buying these properties. The major obstacle to selling them has been the lack of liquid capital in Germany. Banks have been unwilling to lend money to finance the purchase since very high rates of interest can be obtained in making industrial loans with less inherent risk than in the motion picture industry.²⁶

High Commission efforts to sell parts of the UFI combine drew criticism from the German press and the German government. One segment of the press believed the current "financial difficulties of the motion picture business" offered a greater danger to further development of the film industry "than another motion picture monopoly in the hands of a few big companies."²⁷ The government contended that the High Commission ought to wait until it had formulated its own law for the disposition of UFI properties. Officials within the government were critical of the Commission's policy. Dr. Rudolf Vogel, chairman of the parliament's committee for press, film, and broadcast-ing, asserted that forced deconcentration of UFI was "an act of mistrust." He declared that even though there were giant production companies with diversified interests in the United States and Great Britain, the High Commission was trying to dissolve a similar one in Germany. Dr. Vogel insisted that the problem

has nothing to do with security. Today the question is whether—five years after the capitulation—it is still possible to squander German property without the participation of the Germans.²⁸

Karl Brunner of the Social Democratic party contended that UFI already had been broken because more than half of its property was in the Soviet occupation zone and inaccessible to the UFI organization in the western zones. He charged that the aim of the Commission's plan was to eliminate competition from German films.²⁹ Similar sentiment was expressed by Dr. Hermann Puender of the Christian Demo-

established. The UFI combine was confiscated by the Military Government which administered the properties and it appointed a German custodial committee to develop a plan for the decartelization of the industry.

Action to dissolve the UFI trust was not taken until September, 1949, when the American and British Military Governments issued Law 24, the "UFI Law," which was supplemented by Ordinance 236 from the French Military Government. The objective of Law 24, as stated in its preamble, was to

... dispose of such [motion picture] property in a manner best calculated to foster a sound, democratic and privately owned motion picture industry in Germany, organized so as to preclude excessive concentration of economic power. . . .³⁰

It authorized the establishment of a Liquidation Committee to have title to UFI properties and the right to sell them, subject to certain conditions. These required that sales be at public auctions and that buyers could not be government agencies, officials of political parties, former leading Nazis, or former high employees of UFI. In addition, non-Germans were forbidden to acquire more than a quarter control of any one of the three production studios up for sale. The Liquidation Committee was established in February, 1950, but according to one source it never functioned.³¹

By this time, however, Military Governments had ceased their operation, and authority was vested in the Allied High Commission and in a reconstituted West German federal government. As the status of the former Military Government's UFI Law was now ambiguous, the West German government requested clarification. In June, 1950, it asked the High Commission to replace Law 24 with a governmental decree designed to carry out the same idea. The Commission responded by repealing Law 24 and French Ordinance 236 but replacing them with High Commission Law 32. This new law dissolved the Liquidation Committee established under Military Government and set up in its place a Deconcentration Committee with power to dispose of UFI properties. Simultaneously, the High Commission declared it would repeal its own Law 32 as soon as the West German government passed legislation on film industry deconcentration.

To this point, then, three committees had had the power to split the UFI trust. There was the Custodial Committee which had been replaced by the Liquidation Committee which, in turn, had been

cratic party and president of the German Economic Administration. He felt the destruction of the German film monopoly was purely "for the one-sided benefit of foreign interests."³⁰

At the same time, there were hints that British and American officials had disagreed about the method of disposing of UFI properties. These difficulties eventually were resolved when, late in 1951, the High Commission announced it would make no further attempts to dismantle UFI and that action would depend upon the German parliament developing a program for this purpose. In the months which followed, pieces of the UFI combine gradually were handed over to the West German government by the High Commission. The last transaction occurred in December, 1953, and at that time the fate of UFI passed into the hands of the Bonn government and German industrialists and financiers.

Meanwhile, facilities of the UFI combine had been leased and rented to independent film companies which had been established either under the Military Government licensing procedure or under subsequent arrangements. Thus, when the German government inherited control of UFI, it was an operating entity and in a structure similar to that of the Hitler days.

One writer has observed that by 1953 the "deconcentration of the UFA-UFI properties into economically viable and competitive units [had] not yet been accomplished." He noted that experience with coal, iron, and steel industries had demonstrated that "deconcentration is a very long drawn out matter." In discussing the film industry's structure in relation to other media of mass communication, the author stated:

The German democratic press has a good chance of survival. The German radio shows a heartening consciousness of its public service functions coupled with a determination to maintain its gains. But in the film industry, it is perhaps too much to expect that future developments will be along the lines desired by [the Allied High Commission for Germany].³¹

The eventual control of much of the UFI properties passed in 1956 into the hands of a holding company in which a number of major German economic and banking interests had an investment. As a result, the UFI combine was not broken into economically independent and viable units as the Military Government and the High Commission had planned. The UFI organization in the western zone remained virtually intact, although its ownership was no longer

in government hands. One person in the film industry in West Germany. He writes that despite Allied efforts to deconcentrate and the UFI properties would have aggravated the film industry crisis. The government, according to this source, wanted "a strong pillar" around which the entire industry would revolve, and decided this should be the old UFI properties. This is supported by John Dornberg in his book *Schizophränie Germany*. He writes that despite Allied efforts to deconcentrate and decartelize German industry, "most of the big industrialists have made a grand-scale recovery" and "are virtually all back at the throttle today."³² Dornberg adds:

It would be unfair to say that the Germans or the Allies have tried to forget the plans to decentralize large industries which played a major role in supporting the National Socialist regime. But there is also no question, understandably, that the Germans affected by the orders and laws have dragged their feet. Most of the firms involved are vital to Germany's economic recovery and, considering the change in attitudes and the turn of events for Germany, many officials and many Germans in private life cannot understand why there is still the demand to decentralize and deconcentrate the industries which will strengthen the country economically.³³

In the case of motion picture deconcentration, both the American government and the American film industry believed the destruction of the former Reich film monopoly would serve useful purposes. The government felt that monopoly had to be replaced by competitive and independent companies on the assumption that only this could contribute to a democratic and economically strong Germany under *laissez-faire* principles.³⁴ The American film industry wanted to see the end of the UFI monopoly because this would have removed an obstacle in the path of the American industry's own desire to control the West German market.

This joint industry-government policy came to nought, however. Only the government could actively initiate dismemberment of UFI, even though the American industry could support such a move. In the years following 1945, there were no serious attempts by the Military Government to dissolve UFI, and when the High Commission finally began the job in the early 1950's, it met with strong opposition from the West German government. In the five years after the end of hostilities, German government officials and industrialists had begun

and industrial cooperation in Germany, the film industry was permitted to remain more or less intact with anticipated benefits falling to German business and to the German economy in general. In spite of this policy, the West German film industry never has managed to get on its feet. The strong pillar, Universum Film, around which the new industry was to be rebuilt, went through years of re-organization, diversification, and economic shakiness, culminating in its bankruptcy in 1962 and its purchase by a West German publishing house two years later.

Following the deconcentration program through to the end, and for all industries, could have weakened the West German economic structure, and this result would have been inconsistent with Allied efforts to increase economic stability and well-being as a bulwark to Communism. Thus, original intentions had to be annulled due to political considerations and events of the time.

Over the years, relations, cooperation, and negotiation between the American industry and the American government have depended upon the availability of channels for interaction. For the industry, contact with government on the highest levels has assumed an important place in its overall business policies. The death in August, 1963, of Eric Johnston, president of the Motion Picture Association of America, left a vacuum in the industry's administration. In the search for a successor, one film industry executive frankly acknowledged that "our selection must be a man of stature who has entry to the White House [and] respect in international diplomatic channels. . . .¹⁰⁰ Perhaps these requirements have been fulfilled by the new MPAA president, Jack Valenti, a personal friend and former influential aide to President Lyndon Johnson.

to wield some measure of political and economic power, and this obstructed the High Commission's attempts to break UFI. In addition, it is quite probable that German film industrialists, bankers, and other investors, had access to German government circles and strongly demanded that the film industry not be restructured in small, independent, competitive units. Considered in these terms, the deconcentration issue became a battle between American and West German industrial interests through their respective governments. The American government, of course, was not particularly attracted to the wishes of the American industry to have its own control of the German market. In contrast, the German government was interested in building a stronger Germany and recognized that this might be possible for the film industry if it were not dismantled.

Ludwig Erhard, when the Minister of Economic Affairs, discussed the "German economic miracle" and attributed economic growth to what he termed a "social market economy." He has written:

My use of the term "social" is not intended to refurbish tacitly continued capitalistic methods, but to indicate a definite departure from the old liberalism which, as is generally known, cast the state in the role of night-watchman in the nation's economy.

What "Social Market Economy" implies is that the state is given not merely the function, but in fact a real responsibility for imposing on the economy certain politically desirable maxims and employing the broad range of instruments of economic policy in such a manner that the free decisions of men of all categories in the course of their economic activities will nevertheless lead to the desired result. The "Social Market Economy" is based on the principles of freedom and order which, if harmony is to reign, must in my view constitute an indivisible whole; for where there is freedom without a firmly established order there is the danger of it degenerating to chaos, and where there is order without freedom, it all too easily results in brutal coercion.¹⁰¹ (Italics mine)

It would seem that the policy of the Bonn government called for giving the German film industry its freedom through private ownership and for instituting "firmly established order" through the maintenance of the UFI combine.

The ultimate outcome of the deconcentration program was not a complete victory for the American film industry, because UFI was never dissolved. However, to parallel UFI's business, independent German companies were established and these have functioned with various degrees of success. On the other hand, through governmental