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# The Rise and Fall of the Italian Film Industry

Marina Nicoli



# The Rise and Fall of the Italian Film Industry

Italian cinema triumphed globally in the 1960, with directors such as Rossellini, Fellini and Leone, and actors like Sophia Loren and Marcello Mastroianni, known to audiences around the world. But by the end of the 1980s, the Italian film industry was all but dead. *The Rise and Fall of the Italian Film Industry* traces the rise of the industry from its origins in the nineteenth century to its worldwide success in the 1960s and its rapid decline in the subsequent decades. It does so by looking at cinema as an institution—subject to the interplay between the spheres of art, business and politics at the national and international level.

By examining the roles of a wide range of stakeholders (including film directors, producers, exhibitors, the public and the critics) as well as the system of funding and the influence of governments, author Marina Nicoli demonstrates that the Italian film industry succeeded when all three spheres were aligned, but suffered and ultimately failed when they each pursued contradictory objectives. This in-depth case study makes an important contribution to the long-standing debate about promoting and protecting domestic cultures, particularly in the face of culturally dominant and politically and economically powerful creative industries from the United States. *The Rise and Fall of the Italian Film Industry* will be of particular interest to business and economic historians, cinema historians, media specialists and cultural economists.

**Marina Nicoli** is a Post-Doctoral Research Fellow in the Department of Policy Analysis and Public Management at Bocconi University, Italy.

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# The Rise and Fall of the Italian Film Industry

Marina Nicoli

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This book is dedicated to Armando, my husband, for being by my side and for having always cheered me up, and to Alberto, my son, for his unconditional love.



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# Abbreviations

ASI-BCI	Archivio Storico Intesa-Banca Commerciale Italiana
ANICA	Associazione Nazionale Industrie Cinematografiche e Affini
B.N.L.	Archivio Storico Banca Nazionale del Lavoro
S.A.C.C.	Sezione Autonoma di Credito Cinematografico
SASP	Società Anonima Stefano Pittaluga
SIAE	Società Italiana Autori Editori



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# Introduction

Film is an art and the cinema is an industry.<sup>1</sup>

In a capitalist economy, a film is an intellectual product because it has all the requisites of a work of art, but it is also a type of merchandise because its production and consumption require industrial and commercial operations.<sup>2</sup>

One fine day Zavattini came to me with Vittorio De Sica and said, “Dino, we have a project here that is a work of art”. “What is it?” “*Il giudizio universale/The Last Judgement*”. I was doubtful about the project, but there was Zavattini, De Sica as the director, and an outstanding cast, so we made this picture, intending to make a work of art. It was a flop at Venice and it was a flop with the public. You can’t define a work of art from the outset. When I made films with Fellini, I said to him, “What does this film mean?” “I don’t know, Dino, I’m waiting for its release and then the critics will tell me what this film means”. A work of art is something that in a certain sense we can’t decipher. We can’t start off saying, “I’m going to create a work of art”. We, American producers, think of ourselves as showmen, and we try to make a good quality product for audiences all over the world, not just in America.<sup>3</sup>

This anecdote illustrates some of the criticalities that have characterised the Italian cinema from the start. This conversation between producer Dino De Laurentiis and screenwriter Cesare Zavattini, (the film was released in 1961) highlights the constant tension between the dictates of art and of economics, in a sector whose industrial and artistic components are bound together. It shows that film production is a risky business even with an outstanding cast, and that a film’s success always depends on the public’s reaction. This is also the story of an Italian producer, Dino De Laurentiis, who left for Hollywood in the 1960s because he felt that Italy was no longer a suitable place for cinema production ventures. Finally, it helps us to understand the fundamental difference between the American and Italian models.

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The aim of the US model was to produce a technically valid film for an international public, while the Italian model was constantly uncertain about the nature of film as a product: was a film art, or was it a product made for entertainment purposes?

This book traces the evolution of the Italian industry across a series of quite distinct institutional environments. The aim is to examine which forces, political, economic, cultural and technological, were most important in shaping the development of the Italian cinema industry over the past 120 years. Clearly some of the forces shaping Italian cinema were international ones, also faced by other film industries, like the international expansion of the American companies from the 1910s or the transition to sound. These global trends were both threats to be resisted and opportunities to be exploited. Against these global industry-wide trends, we also see changes in the national political environment, with the shift from a liberal state to fascism and then to democracy after WWII. This perspective will allow the interpretation of the patterns in the industry both as a phenomenon of cooperation or competition with Hollywood and as the result of changing strategies, domestic and international policies, economic and political ideologies, and social and cultural practices.

The complex interactions among forces mentioned above (art, business and politics) explain how Italian cinema became an institution (Burch 2001, Casetti 2005): its transformation into an independent and qualified field, the formation of its productive structures and its own specific language, and the ways in which production practices, artistic aspirations and movie consumption are interconnected. The processes of institutionalization affect why and how Italian cinema determines for itself specificity and legitimacy, its own personality and identity.

Among the three broad “forces”, the business one will occupy a special place in the book, since it has been rather neglected by the literature but is essential in understanding the movie industry. In fact, every movie is a “product” and, like any other business, the industry exists to make money (Squire 1993). For this reason, the history of Italian cinema will be examined considering issues such as the evolution of its industrial organization; the working of the movie value chain; the impact of technological innovation; the characteristics of demand; the importance of international trade and its influence on industry dynamics; government intervention, including the reasons behind movie industry regulation; and the impact of the various trade and regulatory regimes on the development of the industry. The overall aim is to identify how these factors shape the industry’s trajectory and to understand how the Italian case differs from that of other countries.

### **Cinema as a Creative Industry**

Cinema, as well as museums, archives, festival, theatres, broadcasting, publishing, videogames and the music industry, is part of the broad family of

“cultural and creative industries”.<sup>4</sup> These are usually defined as those institutions that “employ the characteristic modes of production and organisation of industrial corporations to produce and disseminate symbols in the forms of cultural goods and services, generally, although not exclusively, as commodities” (Garnham 1990). In a more recent reconceptualization (Peltoniemi 2015) cultural and creative industries are defined as “those that produce experience goods with considerable elements and aim these at the consumer market via mass distribution”.

The balance between economics and culture can be a slippery slope and involves a constant tension. Hirsch (1972) has noted that production shapes artistic expression because artists and creative people have different standards. Other researchers point out that cultural managers need to find a balance and reconcile artistic ambitions and the economics of mass entertainment. Nowadays, there is still controversy over whether art and profit are mutually exclusive or complementary.

Cultural and creative industries are usually set apart from conventional conceptions of an industry due to their specificities: they supply products and goods that serve more aesthetic, broadly educational or entertainment purposes rather than any immediate “technical” function (Throsby 2001) and for this reason it is usually difficult to assess the value they create through purely quantitative measurement. The social and cultural significance is unarguable, but these industries have also started to account for a significant and growing share of economic activity.

Insofar as cultural and creative industries are becoming more and more important as a source of innovation and economic dynamism, the development of these sectors is a relevant issue in the current political agenda of national governments. According to the UNCTAD Creative Economy Report, cultural and creative industries are among the most dynamic emerging sectors in world trade: world exports of cultural and creative goods and services are increasing at an average annual rate of 8.7%. The contribution of these industries to the economy is, however, not limited to their direct and quantifiable impact. Cultural and creative industries are also an innovation driver in non-cultural sectors (Throsby 2001), indirectly contributing to industrial development (by influencing product developments), local and regional regeneration (by attracting investments, talent and tourism) and social ties (Mccarthy 2005, Brown 2004). For all these reasons, cultural and creative industries represent a strategic sector in the knowledge-based economy (Marcus 2005). The definition boundaries around these industries remain somewhat fuzzy, but in the last years, cultural and creative industries have been taken to include arts, heritage, film, television, radio, press, publishing, etc. In the last decades, creative industries have become part of the political agenda, and over the past 30 or 40 years several scientific communities<sup>5</sup>—Economics, Sociology, Anthropology, and, to a minor extent, Political Sciences and Law, Urban Studies and Geography—have all identified specific research fields intersecting the broadly intended world of art

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and culture. These studies directly or indirectly affect the way in which these industries are defined, thought, perceived and represented. The inclusion of cultural industries as topics of interest within the different social sciences has been, almost obviously, characterized and limited by the dominance of the epistemological premises of each discipline. Social sciences are, of course, not monolithic and in many cases (like economics, sociology and anthropology), the confrontation with the subject of cultural and creative industries spangled all along their intellectual history, providing a set of different solutions and approaches. “Cultural economics” or “the economics of the arts and culture” represent an appealing research field both on the theoretical and methodological level because of the challenge defining whether and how cultural goods and services are different from the other economic and market goods, and how they give birth to different practices of cultural consumption, production and exchange. This research area developed from the late 1970s, when a group of economists—William Baumol, Mark Blaug, Bruno Frey, David Thorsby—analysed the art and entertainment market using the tools of economic theory. Cultural economics is a field whose borders are not always well defined, and problems arise in the first place because of the difficulty of defining the concept of “culture”; Borofsky compared the task to “trying to cage the wind”. Ginsburgh has observed that the cultural economy “is located at the crossroads of several disciplines: art history, art philosophy, sociology, law, management, economics”, and this explains the methodological difficulties in identifying the most suitable analytical tools for understanding the functional dynamics of the cultural goods and industries sector.

One of the key challenges faced by the study of cultural and creative industries is the relationship between culture and the economy. Books, fashion, films, music, paintings and so on are simultaneously cultural products and commodities. As cultural products, they reflect, and in turn shape, the prevalent cultural values and norms of (particular sectors of) particular societies. As commodities, they are imagined, designed, produced, publicized, circulated and finally read, worn, seen, listened to and looked at by particular groups of targeted consumers. Thus, despite increasing popularity in this field of research, there is no comprehensive view on the subject. Some researchers have emphasized the selection process through which cultural and creative goods have to pass in order to get to their audience (Hirsch 1972). Others stress the inherent uncertainty of any cultural goods because consumers do not have complete information about the product (De Vany 2004; Towse 2003b) or their non-utilitarian value (Lampel et al. 2000). Many researchers have dealt with the conflicts that arise between economic and artistic motives (Eikhof and Haunschild 2007). Artistic motives concern stories and styles and they respond to the purposes of entertainment and identity building. On the other hand, economic motives regard the management of production and distribution processes, where economies of scale play a very important role. Given the uncertain boundaries and features of

cultural products, research on this topic has followed different paths that can be summarised as follows: by focusing on the product, researchers have tried to explain why certain products reach the market and others fail; on the organisational level, the aim is to understand the way organisation can affect the end product and, finally, at the industry level, researchers study the consequences of industry structures on creative outcomes. Even though cultural and creative industries research is vast, several areas remain for future research.

### **There Is No Business Like the Movie Business**

Cinema represents the emblematic art of modernity, one of the most pervasive “factories” creating the myths, collective consciousness and identity of the twentieth century. If we accept the hypothesis that every period of history has its own “eyes”, i.e. its own particular way of looking at the world, and that this can reflect in the visual texts that a society produces, then we can say that cinema was the “eye” of the 1900s. It was a collective way of seeing, a visual depository for the spirit of the time. “The cinema is not only complex in the present and potentially fertile, but is also typical of this mankind to which we belong. It is a product of the times and sign of the times; a product because it is created by present day skills, but it is also a sign, because its widespread distribution shows its adaptation to the current psychology, to the point that it not only receives a colossal impulse, but also confirms, moulds and inspires the tastes of modern man”.<sup>6</sup>

Cinema, movie theatre, film industry, film: this wide number of meanings seems to reflect its complexity. Cinema: art or industry? Cinema as a phenomenon or cinema as a production method? Cinema, like the other cultural industries—live entertainment, music, publishing—is a specific sector, influenced by economic and intangible factors<sup>7</sup> that require an investigative methodology capable of taking account of its peculiar features.

Even use of the words “film industry” is in itself problematic, since it immediately introduces what for many years was perceived as a contradictory relationship between art and industry. “We must remember that film production is not just an art, but also industry”. There are many variants, but these words appear in every discussion regarding cinema. The office of Will Hays, the American film industry censor, achieved a compromise by talking about an art-industry. Industry certainly appears to be much more necessary for the art of the cinema than for the theatre; it would be difficult for the art of the cinema to exist without the triple structure of production, distribution and exhibition.

In the words of Morin, “a cultural industry must continually overcome a fundamental contradiction between its own bureaucratic-standardised structures and the originality (individuality and novelty) of the product it provides”.<sup>8</sup> So, can cultural creation be integrated into an industrial production system?

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The cinema's products are primarily artistic, but they have a great deal of industrial value. The conflict between the industrial and cultural aspect of the cinema is the conflict between the exchange value of the product and its intrinsic value, which affects all artistic products. Exchange value is connected with the artistic product's position on the market, while intrinsic value derives from its use. According to Benjamin, reiterated by Adorno and Horkheimer, a work of art loses authenticity in the age of mass media and technical reproducibility: reproducibility gives an exchange value to a work of art, which then goes onto the market as merchandise.

The fact that a film is both an artistic product and an economic product makes it difficult to find a parameter for indicating the performance of a film. A film may be evaluated according to its box-office success, and, on the other hand, it may be evaluated according to its innovative capacity and cultural content.

A film's performance can be measured by its box-office achievement, or by the opinions of film critics. Alfred Hitchcock, interviewed by Francois Truffaut, famously declared: "when a director is disappointed by critics because he realises that they do not accurately analyse his movies, oh well, the only thing he can do is to make commercial movies. If a director shoots only for box office, he will be soon influenced by routine and this is bad. Critics are often to be blamed for this situation, because a director is induced to be worried by box office and to declare I don't mind critics because my movies are commercially successful".<sup>9</sup> Therefore, economic performance seems to require the repetition of successful formulas, whereas cultural performance, i.e. art, seems to require new approaches, innovation and creativity, but could inevitably disappoints the public.

We also know that film production entails a high level of risk. There appears to be no entrepreneurial formula for guaranteeing that a film will be a box-office success or acclaimed by the critics. There are plenty of examples of unexpected flops and unexpected successes (Hesmondhalgh 2002). The cinema is the "nobody knows" industry, because nobody can predict what will happen at the box office (Goldman 1983). Moreover, in the history of the film industry there are very few films that have been both box-office successes and artistically outstanding. Besides this, the film industry is a context in which economic and artistic performances depend on physical/material capital, human capital and social capital. Physical capital is extremely important for the commercial success of a film. The budget determines the technical input and the quality of the human capital involved in production. Famous actors, the possibility of shooting in different and exotic locations, and the use of special effects are important for the film's chances of success. Human capital means acquired skills and knowhow, while social capital is even less tangible than human capital and is related to interpersonal relations. All three forms of capital can have an effect on production and on box-office results.

In the late nineteenth century and early twentieth century, an intensification of the circulation of technologies, cultural texts and cultural workers

was registered. The waves of internationalization of cultural products came mainly from the United States (Tunstall, 1994): the speedy capture of the world movie market by Hollywood from the end of WWI, the coming of sound movies in the '30s, the spread of American entertainment newspapers are some of the example of the progressive dissemination of American culture.

The economic features of film-making (high fixed and sunk costs, high risk and uncertainty) created powerful incentives to export worldwide and international competition started since the beginning of cinema invention (Bakker 2008). The search for market share control reached its peak during the '20s with the rise of Hollywood that was able to set worldwide organizational, artistic and technological standards (Balio 1985). In order to be appreciated by the international audience, a movie had to respect a specific set of artistic and technological standards and Hollywood had deeply influenced these standards as well. More than other economic sectors, the film industry produces goods that require creativity and innovativeness. Both are the strategic resources of creative industries, and they have to be constantly maintained since they rapidly get old. This is in line with one of the characteristics of cultural and creative goods: the capabilities of offering experience, fun and pleasure. Innovation does not mean that the primary goal is the improvement of performance of functionality, but that creation of different types of goods is useful to please different and fickle tastes (Power and Scott 2004, Hirschman and Holbrook 1982). A way to feed creativity and innovativeness could be to foster cultural exchanges and contaminations. If this is true, public policies should constantly stimulate and feed exchanges between native culture and foreign ones for strengthening and developing the first. This is one of the reason why during the twentieth century, policy makers worked to promote and regulate the movie industry not only to gain economic goals but also to suit broader national purposes, like the defence of national cultural sovereignty against the overwhelming American imperialism.

Given the above features, film production has been usually seen in relation to two great models. One is the American model, where Hollywood means the vertically integrated major studios, and the other is the European model, with only a few large vertically integrated film companies and a greater number of small-medium companies. Another important actor also characterises the European model: the state, seen as both a producer and a regulator. The idea of the American studio system is overburdened with connotations. In addition to its original meaning, i.e. an integrated system of production, distribution and exhibition, it has taken on other meanings that relate more to its results than to the specific nature of the system. Thus, the studio system denotes a structure that actually existed in a certain form, and has come to include more or less implicitly an artistic ideal, an ideology of the cinema and a communicative style. Over time, the studio system has become increasingly identified with the classical Hollywood as it was from the late 1920s to late 1940s, with the star system and codified film genres, a distinction between the roles of director and screenwriter, the Hays Code

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of self-imposed censorship, hugely influential producers, etc. The European film industries had always hoped to copy the American model; harshly criticised because of its association with the idea of a standard production, it was at the same time admired for its earning power.

Within this framework, it is undoubtable that cinema represents a complex research field embedded with economic, cultural and even ideological concerns (Sojcher 2002), where the hegemony of distributors and US producers has greatly affected the rules the game, by influencing industry structures and strategies and government policies in many other countries. In the past century, the movie industry lived its successful parable, and the analysis of this sector can offer interesting and meaningful insights in order to better understand how a specific historical, cultural and economic context can shape the development of creative industries. Much of the current research on the cinema industry has been done within the framework of cultural studies, even if some European, especially French, authors have stressed the duality between art and industry (e.g. Frodon 1998, Benghozi and Delage 1997, Creton 1997, 1994). On the other hand, more recently economic and business historians have contributed significantly to the understanding of the movie industry. However, these scholars have focused primarily on an analysis of the Hollywood model and the way it became dominant (Bakker 2012, 2008, 2005, Miskell 2009, 2006) and on the determinants of movie revenues (Sedgwick and Pokorny, 2005a, 2005b, 2001, 2002). By contrast, an examination of the relationship between cinema policies and industrial dynamics is currently missing from this literature. This book therefore aims to provide a more comprehensive approach, examining how culture, economics and politics (including state institutions overseeing the movie sector) have interacted to influence industry dynamics and frame policy measures.

### **Italian Cinema: An “In Between” Film Industry**

The Italian film industry today is in the same identical situation as it was at its beginning: above all, it lacks intelligent industrial and commercial organisation, and it also lacks a general and specific artistic direction; in other words, it has no clear idea of its objectives, what it is, or where it is going. It lacks everything it needs for our production companies to be world leaders in the film industry and become solid organisations.<sup>10</sup>

(Turin, December 1918)

The serious problem is that everybody wants to do something for the Italian cinema. If they knew what it was, it would practically be the Italian cinema of tomorrow. Unfortunately, however, the huge majority of those who want to do something do not know exactly what they want. Cinema taste has to develop [. . .]. I do not see this as an industrial problem. It is a problem of taste and climate, i.e. the involvement of Italian intelligence. Then, at the same time, work is required on the technical aspects.

(Milan, February 1933)

No economic factor can replace or compensate for the lack or deficit of the creative forces of intelligence and fantasy. A healthy financial and technical organisation is effectively only a prerequisite, but it is an essential prerequisite for the artistic success of the production.

(Rome, November 1941)

Editors of “*La Vita Cinematografica*” magazine in the 1920s, Ettore Margadonna<sup>11</sup> in the 1930s and Eitel Monaco<sup>12</sup> in 1941 maintained that the Italian cinema of tomorrow should invest in global consolidation of all the elements that form this complex “industry”: its artistic, cultural, economic, financial and technical factors. A competent industrial and commercial organisation combined with a precise artistic direction would be the base on which to build solid production companies.

During the twentieth century, Italian cinema experienced a vast array of structural, technical and organisational changes, cyclical crises and production revivals. The fascist regime attempted to apply a capitalistic approach and industrial structure to Italian film production in the 1930s and early 1940s, and this approach was then repeated with the policy of co-production and international collaboration.

Italian cinema reached its height of expansion in 1957. This new stage saw large production and technical organisations, wider distribution networks and large cinema chains. The transformation also changed the relations between production and technical systems. The service structure, i.e. distribution, cinemas and technical industries, became the load-bearing structure of the Italian film industry and influenced production models. In any case, Italian film production started up again at full speed, thanks to the system of state funding for films, the easy credit offered by the Banca Nazionale del Lavoro, and the expansion of export markets. Italian cinema became competitive once again, and was appreciated by the international public and critics alike.

On the eve of the 1970s, the film market was a sector controlled by the economically stronger industrial organisations, whose strategy was very much conditioned by the market. Italian producers did not understand the changes taking place and continued to repeat the same strategies as before, convinced that the public went to the cinema out of habit—an artificially created habit—rather than out of free choice. Italian cinema began to find itself facing competition from television, and went from being a form of mass entertainment to being an elitist form of entertainment similar to the theatre. What happened to Italian cinema during the 1970s is not very different from what happened at the same time to Italian industry in general. After achieving excellence in the 20 years following World War II, just when Italian cinema needed to make a new qualitative leap forward, it stopped dead. It attempted to guarantee its own easy survival under protection from the market, which continued and went ahead with successful foreign films that were mostly American. Italian cinema disappeared from domestic and

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international cinemas, and Italian films were considered to be both technically (picture and sound quality) and artistically obsolete. Was this the end? It certainly seemed so.

The overall economic situation of the Italian film industry is well illustrated by Libero Solaroli: "The reasons for its backwardness and inferiority lie in its lack of industrialisation, the absence of a solid base (industrial and above all commercial), a state of constant crisis and survival guaranteed by protective legislation".<sup>13</sup> However, this view is incomplete and does not explain why industrialisation failed to take place and why solid bases were not built.

A detached look at the Italian film industry immediately reveals its fragmentation and the smallness of the production companies. As for all national film industries, the first years of the twentieth century were a period of rapid growth, but then the sector settled down into a structure that included only a few solid organisations (e.g. Cines, Ambrosio, Itala Film and Pasquali) alongside dozens of small production companies, which sprang up to make just one film and then disappeared within a year, or even after just a few months. The multitude of production companies meant that a certain variety of experimentation and experience was guaranteed, but these companies sprang up and then died without leaving behind any lasting legacy of skills or knowledge, and the big investors and industrialists stayed well away from a sector that was consequently seen as having unstable foundations.

Of course, there were exceptions: Italian cinema also included production companies with a serious entrepreneurial approach, which made technically and artistically valid films that were internationally acclaimed and left a lasting impression on the public. These defects, limits or omissions seem to continue into the present day. The future of the cinema is always a topic of discussion, since its health swings back and forth between crises and good times.

The history of the Italian film industry has often been marked by improvised business ventures. Film-makers have often been suspicious of the management methods used in other sectors, convinced as they were that art and culture should not necessarily converge with the interests and the tastes of the public. These film-makers have always proudly asserted their own autonomy and independence from the market, asking the state to take on the problems of financing their ventures, based on the principle of "art for art's sake".

It has been said many times that Italian cinema's weaknesses were caused firstly by the failure to industrialise production processes in the period up to the 1960s, and then by the failure to implement a flexible model in the last 30 years. These weaknesses are mainly due to the lack of entrepreneurial culture, to the small size of the Italian market, and to the tireless idealistic defence of an excessively elitist conception of the art of cinema. Although this can explain why the Italian cinema system failed to grow and to become internationally competitive, it does not justify the absence of any efforts to