

Hollywood's Road to Riches. By *David Waterman*. Cambridge: Harvard University Press, 2005. xvi + 393 pp. Tables, figures, appendix, notes, index. Cloth, \$29.95. ISBN: 0-674-01945-8.

Reviewed by Douglas Gomery

Over the past thirty years I have always looked forward to David Waterman's books. I own them all. He is a neoclassical economist and I am not, so he has taught me a great deal.

In *Hollywood's Road to Riches*, his central question is, What industry could continue to operate amid rising costs and intense competition and manage to achieve the spectacular record of the Hollywood studio system? The U.S. movie industry's extraordinary success at home and abroad has come about despite the threat posed by broadcast television and the explosion of other forms of entertainment media. How has this happened?

Waterman seeks to answer this question by combining historical and economic analysis, which he begins in the 1950s, when the challenge of television brought about industry change. Today Hollywood commands over 80 percent of the world's film business. Waterman asks how economic forces leading to its success—audience demand, technology, and high risk—have combined to change the kinds of movies Hollywood produced.

He argues that the movie studios have multiplied their revenues by effectively using pay television and home-video media to extract the maximum amounts that individual consumers are willing to pay in order to watch the same movies in different venues. Along the way, the Hollywood studios have masterfully handled piracy and other economic challenges to the multimedia system they use to distribute movies. Waterman ends by speculating about what Internet file sharing and digital production and distribution technologies might mean both for Hollywood's future prosperity and for the quality and variety of the movies it makes.

Seven chapters of text take up 278 pages; eleven appendices, fifty pages of notes, twenty-three graphs and figures, and twelve tables fill the remainder of the volume.

Defying the usual expectations of a book about Hollywood, there are no photographs, nor is there an attached DVD. In short, this is not so much a business history of a single studio as a history and economic analysis of an industry.

Waterman has spent three decades practicing neoclassical analysis, but in this book he turns to history and to what Steven J. Levitt and I call “institutional analysis.” Levitt, who recently won the John Bates Clark Medal, awarded every two years to the best American economist under forty, rediscovered the institutional approach, which had long been out of favor. Waterman appropriately applies it to the Hollywood industry, which he describes as an oligopoly.

Yet Waterman disappoints because he never escapes the neoclassical model and does not construct a theory of oligopoly or of institutional economics to frame his subject. An institutional analysis of oligopolies could draw from a number of theories, but Waterman never tells the reader which one he has selected as the basis for his study.

His microanalysis focuses on theatrical releases of Hollywood feature films, but he ignores institutional estimates revealing the contribution of theatrical box offices to be 20 percent of the total revenue at best. Reverting to neoclassical analysis, he concludes, “The cycle continues.” However, Hollywood is not, as Waterman states, an industry that succeeds in spite of itself. On the contrary, the industry has benefited from a series of skilled leaders who have fashioned media conglomerates to correct for the cycle that Waterman considers inevitable. Television is the basic business of our media conglomerates. Other media also provide a base for the risks of investing in theatrical box-office films. Wasserman ignores the fact that a feature film rarely fails to make a profit because of the additional revenue to be gained from the new media sources.

Since the studios are reluctant to give information about DVD sales to *Variety* magazine, we do not have a clear idea of their sales numbers. Then why do the studios give *Variety* reports of theatrical revenues? The answer is that these reports are part of a planned publicity strategy that Lew Wasserman invented in 1975 with the promotion of *Jaws*. Waterman mentions this campaign, but he does not acknowledge the businessman who fashioned this first blockbuster. Universal’s Wasserman was a business executive of great skill who retooled the Hollywood studio by embracing television and using it to create an empire that others copied. Waterman seems to be puzzled by this phenomenon.

Waterman claims that his purpose is to explain Hollywood's economic achievement, but to attempt such a task without mentioning Wasserman is impossible. In 1961, after the industry had undergone a temporary retrenchment in the 1950s, Wasserman took control of Universal and adapted price discrimination to the new Hollywood. He presided over Universal for thirty years. Wasserman ensured that television did not undermine his feature films, and he did so by mastering the formats that Waterman devotes chapters to: pay television, home video, and the media blockbuster.

Finally, to the institutionalist, the devil is in the details. For those of us who have worked on film economics most of our professional lives, the red flag is "Warner Brothers." Waterman refers to Warner Brothers at least a dozen times, but there is no such company. It is "Warner Bros. Pictures, Inc.," not because founding brother Harry could not spell, but because he wanted to save on stationery, which incurred charges by the letter in 1924. The last time I checked, the name had not changed. If Waterman got that name wrong, the reader has to wonder what other mistakes the book contains.

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