Policy Brief

MACKINAC CENTER FOR PUBLIC POLICY

The False Promise of Film Incentives

By Michael Thom

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Introduction

State and local governments in the United States have used economic development incentives for more than 100 years. Incentives typically take the form of special tax favors or subsidies to certain industries or businesses. These policies grew increasingly popular starting in the 1970s, and policymakers now view economic development as an intense competition among governments. States and municipalities spend billions of dollars each year on incentives in an effort to create new jobs and diversify their economies.

Film incentive programs are one example. To entice movie and television activity out of California and, to a lesser extent, New York, a few states began offering tax breaks and other incentives to production studios in the late 1990s and early 2000s. These programs spread quickly: By 2010, more than 40 states and Puerto Rico had created incentives, collectively spending nearly $2 billion annually.

But their popularity waned. Over a dozen states had terminated their film incentive programs by 2020. The reasons varied. Many legislators became aware of academic studies and government reports showing that the programs created few permanent jobs (if any). They also failed to diversify state economies, because the incentives did not entice enough production activity to make a difference. In some states, the programs could not compete with more pressing budget concerns, such as increased funding for public education and infrastructure. Mismanagement and scandals also played a role: Iowa's film incentives ended in 2010 after an audit revealed that the state had made millions of dollars in improper payments.

Still, film incentives endure and have expanded in some states. In 2025 alone, Illinois increased its incentive from 30% to 35%, Texas raised its annual spending to $300 million, and California more than doubled the value of its incentives to $750 million per year. Iowa resurrected its program, too. Michigan lawmakers introduced legislation in 2024 to do the same.

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Film incentives in Michigan

Michigan rolled out the figurative red carpet to Hollywood studios in 2008. The state's film incentive program included loans, free use of public property and equipment, and multiple tax favors for production activity and infrastructure investment. Policymakers modeled it on programs already in place in other states, including Louisiana and Georgia.

But Michigan's tax incentives were notably generous. A production company filming in Michigan earned a 40% tax credit on its in-state spending. A studio that spent $10 million in Michigan would receive a $4 million tax credit, more than enough to cover the taxes it owed the state. Hollywood could also earn a slight boost (2%) if filming occurred in a "core community" that met the state's criteria for being economically disadvantaged.

Companies that built production infrastructure in Michigan were eligible for a 25% tax credit as part of the program. Both tax credits were refundable, meaning that any amount above what the production company owed the state in taxes was refunded in cash. Gov. Jennifer Granholm hailed the film incentive program at the time as "the most aggressive in the nation" and said it would "grow our economy and create jobs."[1]

Within two years, the Michigan Senate Fiscal Agency said otherwise. A 2010 report showed that Michigan's film incentive program drained a net $28 million from the state's budget in 2009, $101 million in 2010 and an estimated $126 million in 2011. This was even after accounting for spin-off economic activity spurred by the production companies. The report concluded, "Any probable impact from the film incentives is likely to have a negligible impact on economic activity in Michigan."[2] Similarly, a 2014 analysis commissioned by the Michigan Film Office concluded that the state's film incentive had a return on investment of -62%.[3]

Michigan's film incentive program did not have a durable impact on the state's labor market. By some measures, in fact, the entertainment industry employed fewer people in Michigan after the state offered incentives than it had before.[4] The aggregate figure looked even worse under a microscope: A 2014 Michigan Economic Development Corporation memo listed 10 taxpayer-subsidized film productions in Michigan that created zero permanent jobs.[5]

Michigan's film incentive program created other negative consequences in the state. Gov. Granholm agreed in 2010 to use public employee pension funds to secure bonds that were used to finance building a taxpayer-subsidized studio in Pontiac. When the studio's owners defaulted three years later, Michigan's already underfunded pension plans had to step in to cover millions of dollars in back payments.[6]

Other notable failures include an animation company that left its offices in Bingham Farms less than two years after receiving $1.8 million in incentives. It also left behind over $20,000 in unpaid property taxes.[7] Backers of the infamous Hangar42 project near Grand Rapids allegedly inflated a property value to earn a larger tax credit for building a studio — and then sued the state when the deal fell apart.[8]

Michigan's film incentive program did not last long. The state spent an estimated $500 million on it from 2008 through 2015 before the legislature and Gov. Rick Snyder terminated it. Less than 10 years later, however, proponents suggested that Michigan resurrect the incentive program. Lawmakers proposed in 2024 to have taxpayers foot 30% of film producers' costs, up to $2 billion over 10 years.[9] The legislation was approved in committee but failed to pass the Michigan House.[10]

The empirical evidence

Michigan's experience with film incentives is no surprise to anyone familiar with the academic literature on the topic. That literature concludes, in no uncertain terms, that these programs have little to no lasting economic impact. They repeatedly turn out to be net losers for taxpayers.

My research

This is borne out in three of my own studies published in peer-reviewed academic journals. The first study analyzed data from all 50 states from 1998 through 2013 and was published in 2018. It isolated the impact of film incentives on three measures of the entertainment industry: 1) job and wage growth; 2) contribution to a state's overall economy; and 3) concentration of the industry in a state relative to other states.[11]

The results showed that incentive programs had no impact on the film industry's contribution to the state's economy or its concentration. Refundable tax credits had a minor but temporary effect on wages, and no effect on job growth. Conversely, transferable tax credits had no wage effect and a trivial impact on jobs. The study's findings provided no evidence that film incentive programs generate sufficient new economic activity or enough tax revenue to offset their cost to state budgets.

I published a second study in 2018 that focused on Hollywood's home: California. The Golden State has spent a large and growing sum of money on film incentives.[12] Using data from 1991 through 2016, the statistical analysis showed that employment had little to no response to increased film incentive spending. Instead, the film and television industry's rise and fall tended to mirror California's overall labor market.

Admittedly, the finding that film incentives did not benefit California taxpayers was old news: The state's independent Legislative Analyst's Office had already estimated that the incentive would drain hundreds of millions from California's treasury.[13]

My third study examined the states that spent the most on film incentive programs: New York, Louisiana, Georgia, Connecticut and Massachusetts. The analysis revealed minor employment gains in two states: Georgia and Massachusetts. But there was a tradeoff: Wage declines offset the job increases. Taken together, the study showed that incentive programs had too little of an impact to generate new tax revenue sufficient to reimburse those states' costs.[14]

Additional research on film incentives

Other studies confirm and extend my findings. A 2013 study in *Canadian Public Policy* estimated the benefits of film incentives in Canada, including wage and employment gains from production activity and new tax revenues. It weighed these against the costs, such as incentive expenditures and economic distortions. The results showed that federal and provincial incentives had a return on investment of -96%. Put another way, for each $1 that Canadian governments invested in film incentives, they received four cents in tax revenue in return. Not surprisingly, the study concluded that "Canadians are poorer, not richer, as a result of the film tax credits."[15]

A 2019 study in *Regional Science and Urban Economics* assessed more than two decades of state-level data on production activity and economic outcomes in the United States to determine whether film incentives made a difference. The analysis showed that these programs increased the number of television productions filmed in a state by one or two series over approximately 12 years, with no net impact on film productions. The results further showed that these programs had no meaningful effect on employment in the motion picture or related industries, such as freelancers, catering, and lodging and hotels. The study's author contrasted the incentives' "low possible benefits" with "their high costs."[16]

Drawing on 16 years of state-level data in the United States, a 2020 analysis in *Contemporary Economic Policy* sought to determine whether economic impact varied by film incentive program type. Across nine incentive types, only tax credits

for non-labor spending had an economic effect, but it was negative. It reduced both per capita income and gross state product growth. The study's author concluded that "[film incentives] divert tax revenue to the film industry from other economic sectors (public and private) without generating corresponding economic growth, which calls into question the popular use of film incentives to promote economic development."[17]

A 2020 *Journal of Economic Geography* study modeled the effect of film incentives on production location decisions from 1999 to 2013. Echoing the 2019 study referenced above, the findings showed that incentives can affect production location decisions, particularly in the first or second year of availability but that broader economic benefits remain elusive. The authors concluded that film incentives "are all revenue-negative, implying that a dollar awarded in tax credits leads to an increase in tax revenues (that is) less than a dollar. In this sense, the efforts to attract film production to a state do not 'pay for themselves' with higher resulting state tax revenues."[18]

A 2022 study of Oklahoma in the *Journal of Regional Analysis and Policy* focused concluded that incentives present "a significant cost to the state budget." The authors use optimistic assumptions about the economic impacts of film incentive programs. They also cast doubt on the size of the so-called "multiplier effect," the assumed spin-off economic benefits created by film subsidies that proponents often use as evidence of these programs' value.[19]

This is only a recent sampling of the academic research on film incentive programs. Their conclusions, however, are consistent with studies across different authors, data sources, timeframes and statistical approaches. The literature is clear that film incentive programs do not create lasting economic benefits.

Government analysis

State government reports mostly concur with the academic research. As part of a 2021 study, I examined evaluations produced by nonpartisan, independent government agencies such as Michigan's Senate Fiscal Agency and California's Legislative Analyst's Office. I collected cost-benefit assessments issued by those agencies from 1998 through 2018. The result was striking. Across 28 assessments from 23 states, every single agency concluded that film incentives yielded a negative return for taxpayers. They cost the state budget more than they returned in new tax revenue.[20]

If there's a point of disagreement across various assessments, it is only about how large that loss is. The table below provides a snapshot of estimated losses for several programs in the United States. Note that the losses are comparable to those reported in the Canadian cost-benefit analysis discussed above, which was -96%.

Graphic 1: ROI estimates of state film incentive programs, 2005-2024

State (Year)	Estimated ROI
Alabama (2017)	-94%
Arizona (2009)	-72%
Florida (2015)	-57%
Georgia (2023)	-81%
Louisiana (2005)	-82%
Maryland (2015)	-94%
Massachusetts (2009)	-84%
Pennsylvania (2009)	-87%
Rhode Island (2024)	-91%
New Mexico (2008)	-86%

Sources: Adapted from Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review, 2015. See endnotes 20-22.

One comprehensive estimate of the return on state film incentives is a recent evaluation of Georgia's program, which costs more than $1 billion annually. The researchers calculated that the program had a return on investment of -81%.[21] Not surprisingly, a recent Wall Street Journal column noted that Georgia has "millions of square feet of production facilities (that) sit empty."[22]

The evaluation of Georgia's program also noted that the only documented instances where a report found a positive return for taxpayers were in studies funded by the Motion Picture Association, the trade association of the major Hollywood studios. Studies funded by state film offices — government departments managing film incentive programs — are also at odds with the academic and government research. In 2009, for instance, the New York Film Office paid Ernst and Young to assess the state's program. The analysis found a positive return on investment of 90%, which is an extreme outlier in the academic literature.[23]

Conclusion

The popularity of film incentives and the billions states spend on them stand in sharp contrast to the academic research and government assessments. Evaluations of these programs consistently find them to be a poor use of taxpayer dollars. They suffer from a failure sequence: Film incentives have little impact on production location decisions, so they create few permanent jobs or other economic effects. This generates little return to state treasuries, and film incentives routinely fail to return positive economic benefits. States must cover the losses through tax and fee increases, spending cuts, or both.

There is even more reason to be skeptical of these programs' economic potential. Film incentives were in full flight during good times for the film and television industry. If they could not demonstrate an economic impact in boom times, it is even more unlikely they will today. It is unlikely that filmmaking's heyday will return anytime soon.

Indeed, the Hollywood of tomorrow will scarcely look like the Hollywood of yesterday. Domestic box office revenue in 2025 totaled just $8.7 billion, a steep decline from $11.4 billion in 2019.[24] Americans are increasingly spending their time streaming already produced content or watching user-generated videos on YouTube and TikTok instead of watching films on network or cable television. Artificial intelligence may further shake up the entertainment industry. Whatever the future of the industry, it is certain that continuing to subsidize the film business will neither save Hollywood nor benefit taxpayers.

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