Strike reveals a future feared

If the studios really believe they can't share a sliver of profits with the people who create what they sell, they'll be the losers. If you don't believe in the future, you shouldn't be in show business.

By Patrick Goldstein, Los Angeles Times Staff Writer
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AS the strike enters its second week with the two sides as far apart as ever, it's hard not to take the writers' side. I'm not sure I'd go as far as Paul Haggis, who called the dispute "another example of massive corporate greed." But he's on the right track. When Tom Freston was fired from Viacom in 2006 he received $60 million in severance pay, more than all of the DVD residuals paid to WGA members that year. I spent much of last week talking to studio executives, eager to hear a good explanation for months of one-sided negotiations, where the studios essentially presented a series of rollback offers and then bashed the writers for not embracing them. None of the studio chiefs would talk on the record, but if I were to sum up their views, I'd put it this way: The future is too uncertain for us to give anything away.

It's somehow fitting that the best piece of agitprop from the writers strike can be found on YouTube, the kind of new technology that's helped inspire much of the industry-wide jitters behind this bitter work stoppage. The clip, titled "The Office Is Closed," features the program's show runner, Greg Daniels, and his writing staff on the picket lines, mocking NBC's parsimonious exploitation of their online labors. (You can also see it at UnitedHollywood.com.)

"The Office" has been a big online hit, attracting 7 million iTunes downloads. NBC.com also streams full-length episodes with ads that, according to Daniels, sell for twice the rate of regular broadcast ads, since you can't fast-forward through them. What do the show's writers get? Peanuts.

ONE of the big sticking points of the work stoppage that has sent shock waves through Hollywood involves what writers will get paid for films and TV shows streamed on the Internet. The studios have defined the streaming of films and TV shows as promotion, not programming. That also goes for 10 "Office" "webisodes" (or web-based episodes) that Daniels and his staff wrote.

Even though the webisodes were such a hit that the staff won a Daytime Emmy for them earlier this year, the writers didn't get paid, since they were defined as promotional material. As Daniels put it on YouTube, if NBC's lawyers are creative enough to call streamed "Office" episodes promotional material, maybe NBC should "send the lawyers in to write our episodes."

Hollywood has always been a land of fear and anxiety. It's why the town's most-repeated maxims involve the slippery grip on the pole of success --
why just root against your enemies, for example, when you can root for your friends to fail too. Everyone in this nasty labor dispute has profound insecurity about the future, an attitude deeply rooted in industry history.

Near the end of his career, the fabled producer David O. Selznick glumly walked across a deserted back lot one night, saying, "Hollywood's like Egypt, full of crumbling pyramids [that] will keep crumbling until the wind blows the last studio prop across the sands." Even half a century ago, the moguls were congenitally pessimistic, always convinced the business was about to collapse. Perhaps this attitude grew out of the industry's Jewish shtetl roots. Maybe it's because the industry teems with hustlers and salesmen -- they're always worried the public will smell the con.

Whenever a new technology has arrived, Hollywood has seen it as a grave threat to prosperity, whether it was the coming of talkies, the growth of television or the arrival of the VCR, the greatest gravy train of all, which the studios immediately attempted to sue out of existence. The studios didn't crumble -- they reinvented themselves and continued to prosper.

Even if you chalk up some of the poor-mouthing to gamesmanship, it's hard to reconcile the studio's negativism about the future with the current state of the business. To hear them talk, you'd think they were running an airline or an American auto company, to name just two ailing industries that have forced workers to take pay cuts and health care rollbacks to keep the ship afloat.

In fact, Hollywood, once a boom or bust business, has never been as stable or consistently profitable as it is today, thanks to better management of risk, a flood of outside investment, global growth and a vertical integration that finds most studios in the hands of far larger corporate behemoths. When NBC has a cold, GE doesn't even sneeze.

The studios' problem is that they see the sweeping change represented by the Internet as more of a threat than an opportunity. For all the talk of how the industry needs a titan like Lew Wasserman to mediate the strike, everyone seems to have forgotten that Wasserman's greatest coups, like buying the Paramount movie library for a song, involved a belief that entertainment would always have future value.

Not that some concerns aren't justified. The Internet has wreaked havoc on both the record industry and the newspaper business, making it difficult to monetize their products. Studios worry that younger consumers, who today pay $20 for new DVDs, may prefer an online rental model (via streaming or video on demand) that generates far less revenue. But there's a certain disingenuousness at work here. Every year I write a column grading the movie studios on their box-office performance. And every year, studio chiefs assure me that they're rolling in dough.

If you've ever heard an executive on an earnings call with financial analysts, you've heard the same upbeat chatter. I'm always told that somewhere down the endless ancillary revenue stream, whether its overseas box office, DVD sales, pay-TV revenue or showings on Singapore Airlines, virtually every movie will turn a profit. The same goes for TV, a veritable cash machine, at least for hit shows.

This past week Viacom reported an 80% leap in third-quarter earnings, boosted by a 57% rise in entertainment revenue. News Corp., which reported $732 million in earnings for the quarter, credited much of the gains to the box-office results from "The Simpsons Movie" and "Live Free or Die Hard." And even though Time Warner's overall earnings declined (to a paltry $1.09 billion), its movie earnings jumped 71%, thanks to the success of a new "Harry Potter" and "Oceans Thirteen."

So why are studios playing such hardball? They say they can't divvy up online revenue until they have a better idea of how much money is generated. Of course, when video came along, the studios persuaded writers to take a tiny cut of the profits, so as not to kill an emerging technology. But once they were accumulating windfall profits, did they
ever revisit that deal? Not on your life.

The bottom line is that the strike is going to inflict a lot of pain, starting with the writers, who don't have the studios' deep pockets. But amid all the name-calling, what has gone relatively unnoticed is that a prolonged strike may cause all sorts of seismic shifts in the entertainment world. A younger audience, already growing distant from network TV, will spend more time than ever on the Internet, where -- with the playing field more level than ever -- the opportunity for exposure will be bigger than ever.

New stars will emerge, new forms of entertainment will hit pay dirt. The amateurs, already in ascendancy, will bask in the spotlight. With the networks flogging what will surely be a hapless array of reality programming, the originality of user-generated comedy on the Web will seem more fresh and ingenious than ever.

We've become an entertainment-obsessed nation, often to a fault. And whatever shape the new entertainment takes, the media giants will find a way to get their share. Money will be made. That's because Hollywood history has always rewarded the cock-eyed optimist. Every great power broker, from Irving Thalberg to Rupert Murdoch, has been bullish about the future, eager for new worlds to conquer.

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The Big Picture runs every Tuesday in Calendar. Questions or criticism can be e-mailed to patrick.goldstein@latimes.com.